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84th Congress, 1st Session - - - - - - - - - - House Document No. 84-235, Vol. IV

Foreign Relations of the United States

1952–1954

Volume IV

The American Republics

DEPARTMENT OF STATE UNITED STATES OF AMERICA

Editor in Chief
William Z. Slany

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PREFACE

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. The volumes in the series include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions of the United States together with appropriate materials concerning the facts which contributed to the formulation of policies. Documents in the files of the Department of State are supplemented by papers from other government agencies involved in the formulation of foreign policy.

The basic documentary diplomatic record printed in the volumes of the series *Foreign Relations of the United States* is edited by the Office of the Historian, Bureau of Public Affairs, Department of State. The editing is guided by the principles of historical objectivity and in accordance with the following official guidance first promulgated by Secretary of State Frank B. Kellogg on March 26, 1925.

There may be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing may be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

> *a.* To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.
>
> *b.* To condense the record and avoid repetition of needless details.
>
> *c.* To preserve the confidence reposed in the Department by individuals and by foreign governments.
>
> *d.* To avoid giving needless offense to other nationalities or individuals.
>
> *e.* To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternative presented to the Department before the decision was made.

Documents selected for publication in the *Foreign Relations* volumes are referred to the Department of State Classification/Declassification Center for declassification clearance. The Center reviews the documents, makes declassification decisions, and obtains the clearance of geographic and functional bureaus of the Department of State, as well as of other appropriate agencies of the government. The Center, in coordination with the geographic bureaus of the Department of State, conducts communications with foreign governments regarding documents or information of those governments proposed for inclusion in *Foreign Relations* volumes.

This volume was initially prepared under the general supervision of Fredrick Aandahl and, at a later stage, of William Z. Slany, his successor as General Editor of the *Foreign Relations* series. N. Stephen Kane was responsible for the planning, review, and editing of the volume. Mr. Kane compiled the documentation relating to United States policy toward the individual Latin American countries and the Latin American states as a regional group, with the exception of the compilations concerning Mexico, Nicaragua, Panama, and political developments in the Central American area, which were prepared by William F. Sanford, Jr.

Rita M. Baker of the Publishing Services Division (Paul M. Washington, Chief) performed the technical editing under the supervision of Margie R. Wilber. The index was prepared by the Twin Oaks Indexing Collective.

William Z. Slany
The Historian
Bureau of Public Affairs

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INTRODUCTION

Scope and Arrangement

This volume presents documents on the major aspects of relations between the United States and the nations of Latin America. The first section records the main lines of United States policy within a general regional framework. The remainder and larger part of the volume presents documents on United States policy toward and relations with individual Latin American nations. These compilations on bilateral relations are arranged alphabetically. Routine economic, political, and cultural issues and exchanges are not included for reasons of space. The compilations in this volume focus upon a number of principal themes prevailing in 1952–1954 in United States-Latin American relations. One of these themes was the effort of the United States to strengthen the nations of the Western Hemisphere against Communist inroads. Another major concern of United States policymakers was the fostering of economic development in Latin America through economic assistance. Military assistance was also being extended to Latin American countries under the Mutual Security Program. Toward the end of the period documented in this volume the overthrow of the leftist regime in Guatemala had a profound impact on U.S. relations with all the other Latin American nations, particularly in Central America.

The documents presented here focus on the diplomatic and economic relations between the United States and the nations of Latin America. The editors did not and could not, under current government declassification policies, procedures, and regulations, attempt to document systematically all aspects of the widening web of official relationships which the United States Government established and maintained in the Western Hemisphere. A more comprehensive accounting of these expanding relationships, particularly in the military and intelligence dimensions, requires readers and researchers to consult official publications and papers of other departments and agencies such as the Department of Defense and the Central Intelligence Agency.

Sources

The documents printed in this volume were primarily drawn from the central indexed files of the Department of State. The decentralized bureau, office, and working level (lot) files of relevant Department units were also examined as were the remaining records of various overseas Foreign Service posts. The editors also reviewed portions of the files of the Mutual Security Agency and its successor organization, the Foreign Operations Administration, as well as record collections at the Harry S. Truman Library in Independence, Missouri, and the Dwight D. Eisenhower Library in Abilene, Kansas.

Official documents originated by other major departments and agencies with foreign affairs responsibilities were consulted and used in the preparation of this volume in accordance with the current regulations, policies, and procedures of those agencies within the general framework of government-wide access and declassification procedures. The present volume includes the key papers from the White House and the National Security Council. It also includes some documents from the Department of Defense and the Central Intelligence Agency.

A detailed list of sources is printed on page XXXI.

Principles of Selection

The editors of this volume have selected the documents printed here from among a large quantity of diplomatic correspondence and foreign policy preparation papers. The principles of selection followed by the editors emphasized documents on the formulation and expression of major lines of foreign policy in Latin America. Particular attention was given to identifying recommendations by United States missions abroad and deliberations in Washington within the Department of State and with other departments and agencies of the government having foreign policy responsibilities. The most authoritative expression of official policy was sought in all cases. The editors also attempted to trace, where possible, the mode of implementing foreign policy decisions and the reactions to these policies on the part of foreign, particularly Latin American, governments as well as inter-American institutions.

Foreign government documents were included in this volume in a few cases where such papers were of fundamental importance in explicating the development of an important United States policy. Such documents are printed here with the full concurrence of the originating government.

This volume includes only a few documents that report upon the internal political or economic situation of a particular country or region. The editors have chosen to include from a very voluminous body of such reports in Department of State files only those that bear directly upon bilateral and multilateral relations of some import to the volume. The editors have excluded documents from the substantial body of records and official diplomatic correspondence regarding routine representations by the United States on behalf of its citizens and firms, minor treaty negotiations, ceremonial functions, consular activities, and the management of embassies and consulates abroad.

Methodology

The methodological principles adhered to in the preparation of this volume continue the general practices and procedures maintained for all volumes of the *Foreign Relations* series. These practices and procedures are, however, constantly in the process of adaptation and adjustment to the requirements of the source materials at the disposal of the editors. Readers should, in using this volume, be aware of the following practices particularly reflected in this volume.

The editors have selected the most authoritative text of each document for publication. When a signed ribbon copy or authenticated file copy of a memorandum was unavailable, a carbon copy was printed, and the editors so indicated in a footnote to the document. The texts of incoming telegrams printed were generally those received in Washington and retained in the central files. In a few cases texts of telegrams were selected from decentralized Department files or other sources. With respect to the telegrams included in this volume, readers should note that although all outgoing cables bear the signature of the Secretary of State, or, in his absence, that of the Acting Secretary of State, they were ordinarily drafted by operational policy officers and signed for the Secretary or Acting Secretary by a senior official with appropriate authority. Incoming telegrams from the field were addressed either to the Secretary of State or the Department of State. Upon receipt in the Department's processing unit, copies were routed to appropriate offices for action. Most incoming telegrams were handled by operational officers in the geographical and functional bureaus. The editors have supplied drafting and other relevant handling information as editorial annotations wherever necessary to clarify the genesis and progress of documents as they moved through the policymaking chain in the Department of State and other departments and agencies. The documentary provenance for documents cited but not printed has generally been provided. If a document was unidentifiable, the editors have inserted appropriate annotation.

LIST OF ABBREVIATIONS AND SYMBOLS

Editors' Note—This list does not include standard abbreviations in common usage; unusual abbreviations of rare occurrence which are clarified at appropriate points; and those abbreviations and contractions which, although uncommon, are understandable from the context.

AD, *Acción Democrática*, a Venezuelan political party
AEC, Atomic Energy Commission
AF, Office of African Affairs, Department of State
AP, Associated Press
APRA, *Alianza Popular Revolucionario Americana*, a Peruvian political party
APS, Agricultural Products Staff, Office of International Materials Policy, Department of State
AR, Office of Regional American Affairs, Department of State
ARA, Bureau of Inter-American Affairs, Department of State
AS & R, American Smelting and Refining Company
ASW, anti-submarine warfare
CA, Central America
CAA, Civil Aeronautics Administration
CAB, Civil Aeronautics Board
CCC, Commodity Credit Corporation
CGT, *Confederación General del Trabajo* (General Confederation of Labor), in Argentina
CIA, Central Intelligence Agency
CINCARIB, Commander in Chief, Caribbean
cirtel, circular telegram
CMB, *Corporación Minera de Bolivia* (Mining Corporation of Bolivia)
COAS, Council of the Organization of American States
COCOM, Coordinating Committee of the Paris Consultative Group of nations working to control export of strategic goods to Communist countries
COMIBOL, *Corporación Minera de Bolivia* (Mining Corporation of Bolivia)
COPEI, *Comité Organización Politica Electoral Independiente*, a Venezuelan political party
CTAL, *Confederación de Trabajadores de América Latina* (Confederation of Latin American Workers)
Del, delegate, delegation
Delus, series indicator for telegrams from the United States delegation at an international conference
Depcirgram, Department of State circular airgram
Depcirtel, Department of State circular telegram
Depgam, Department of State airgram
Deptel, Department of State telegram
DMB, Defense Mobilization Board
DMPA, Defense Materials Procurement Agency
DMS, Director of Mutual Security
DO, Defense Order
DRA, Division of Research for American Republics, Department of State
Dulte, primarily a series indicator for telegrams from Secretary of State Dulles while absent from Washington; also used as a series indicator for telegrams to Dulles from the head of the United States delegation at an international conference
E, Office of the Assistant Secretary of State for Economic Affairs
ECLA, Economic Commission for Latin America, United Nations
ECOSOC, Economic and Social Council of the United Nations
ED, Investment and Economic Development Staff, Office of Financial and Development Policy, Department of State
EDT, Office of Economic Defense and Trade Policy, Department of State
Emb, Embassy
Embtel, Embassy telegram
EPS, Emergency Procurement Service
EUR, Bureau of European Affairs, Department of State

EXIM Bank (Eximbank), Export-Import Bank of Washington
FAO, Food and Agriculture Organization, United Nations
FBI, Federal Bureau of Investigation
FBO, Office of Foreign Buildings Operations, Department of State
FCN, Friendship, Commerce, and Navigation (treaty)
FinMin, Minister of Finance
FOA, Foreign Operations Administration
FonAffs, Foreign Affairs
FonMin, Foreign Minister
FonOff, Foreign Office
FSO, Foreign Service Officer
FY, fiscal year
FYI, for your information
G, Office of the Deputy Under Secretary of State
GATT, General Agreement on Tariffs and Trade
GSA, General Services Administration
H, Office of the Assistant Secretary of State for Congressional Relations
HICOG, United States High Commissioner for Germany
IADB, Inter-American Defense Board
IA-ECOSOC (IAECOSOC), Inter-American Economic and Social Council
IAGS, Inter-American Geodetic Survey
IAPC, Inter-American Peace Committee of the Organization of American States
IAPI, *Instituto Argentino de Promoción del Intercambio* (Argentine Trade Promotion Institute)
IBRD, International Bank for Reconstruction and Development
IC, Division of International Conferences, Department of State
ICFTU, International Confederation of Free Trade Unions
IIAA, Institute of Inter-American Affairs
ILO, International Labor Organization
IMC, International Materials Conference
IMF, International Monetary Fund
IO, Bureau of International Organization Affairs, Department of State
IRCA, International Railways of Central America
ISA, Office of International Security Affairs, Department of Defense
JBUSDC, Joint Brazil-United States Defense Commission
JBUSEDC, Joint Brazil-United States Economic Development Commission
JBUSMC, Joint Brazil-United States Military Commission
JCS, Joint Chiefs of Staff
JMUSDC, Joint Mexico-United States Defense Commission
L/E, Office of the Assistant Legal Adviser for Economic Affairs, Department of State
LA, Latin America
LAV, *Línea Aeropostal Venezolana*, a government-owned Venezuelan airline
LL, Lend-Lease and Surplus Property Staff, Department of State
MAAG, Military Assistance Advisory Group
MAP, Military Assistance Program
MC, Military Committee
MD, Munitions Division, Department of State
MDA, Mutual Defense Assistance
MDAA, Mutual Defense Assistance Act
MDAP, Mutual Defense Assistance Program
MID, Office of Middle American Affairs, Department of State
mil, military
MinFin, Minister of Finance
MINMET, *Minerales y Metales, S.A.*, an Argentine mining company
MMS, Metals and Minerals Staff, Office of International Materials Policy, Department of State
MNR, *Movimiento Nacional Revolucionario* (National Revolutionary Movement), a Bolivian political party
MSA, Mutual Security Agency; Mutual Security Act (of 1951)
mytel, my telegram
NAC, National Advisory Council on International Monetary and Financial Problems
NATO, North Atlantic Treaty Organization
niact, night action, communications indicator requiring attention by the recipient at any hour of the day or night
NIE, National Intelligence Estimate
NPA, National Production Authority
NSC, National Security Council
OAR, other American Republics
OAS, Organization of American States
OCB, Operations Coordinating Board
ODECA, *Organización de Estados Centro Americanos* (Organization of Central American States)
ODM, Office of Defense Mobilization

OFD, Office of Financial and Development Policy, Department of State

OIE, Office of Intelligence Estimates, Department of State

OIR, Office of Intelligence Research, Department of State

OIT, Office of International Trade, Department of Commerce

OLA, Office of Latin American Operations, Foreign Operations Administration

OMP, Office of International Materials Policy

OPS, Office of Price Stabilization

ORIT, *Organización Regional Interamericana de Trabajadores* (Inter-American Regional Organization of Workers)

OSA, Office of South American Affairs, Department of State

P, Office of the Assistant Secretary of State for Public Affairs

PAA, Pan American Airlines

Panagra, Pan American Grace Airways, Inc.

PAO, Public Affairs Officer

PAU, Pan American Union

PJBD, Permanent Joint Board on Defense

R, Office of the Special Assistant for Intelligence, Department of State

reDeptel, regarding Department of State telegram

reEmbtel, regarding Embassy telegram

reftel, reference telegram

remytel, regarding my telegram

reurtel, regarding your telegram

RFC, Reconstruction Finance Corporation

S/P, Policy Planning Staff, Department of State

S/S, Executive Secretariat, Department of State

SHADA, *Société Haitiane-Americaine de Développement Agricole* (Haitian-American Society for Agricultural Development)

STICA, *Servicio Técnico Interamericano de Cooperación Agrícola* (Inter-American Technical Service for Agricultural Cooperation)

TA, technical assistance

TCA, Technical Cooperation Administration

Tedul, primarily a series indicator for telegrams to Secretary of State Dulles while absent from Washington; also used as a series indicator for telegrams from Dulles to the head of the United States delegation at an international conference

Totec, designation for telegrams and despatches dealing with technical assistance

TRC, Office of Transport and Communication Policy, Department of State

U, Office of the Under Secretary of State

UFCO, United Fruit Company

UN, United Nations

UNA, Bureau of United Nations Affairs, Department of State

UNGA, United Nations General Assembly

UNP, Office of United Nations Political and Security Affairs, Department of State

UNSC, United Nations Security Council

UNTA, United Nations Technical Assistance

UPI, United Press International

URD, *Unión Republicana Democrática*, a Venezuelan political party

urinfo, your information

urtel, your telegram

USA, United States Army

USAF, United States Air Force

USDel, United States Delegation; also a series indicator for telegrams to the United States delegation at an international conference

USIA, United States Information Agency

USIE, United States Information and Educational Exchange Program

USIS, United States Information Service

USMC, United States Marine Corps

USN, United States Navy

USOM, United States Operations Mission

USUN, United States Mission at the United Nations

VOA, Voice of America

WFTU, World Federation of Trade Unions

XMB, Export-Import Bank of Washington

YPF, *Yacimientos Petrolíferos Fiscales*, an Argentine Government petroleum agency

LIST OF PERSONS

Editors' Note—The individuals identified below were principal participants in the events covered in this volume. Other officials and individuals not included in the list are identified in footnotes to the text at appropriate places. In general, persons attending but not participating in meetings and those mentioned only in passing have not been identified. Identifications are usually limited to circumstances and positions under reference in this volume. All titles and positions are North American unless otherwise indicated. Wherever possible dates of tenure and the spelling of names follow the information provided in official publications of the countries concerned.

Acevedo Alvarez, Eduardo, Uruguayan Minister of Finance from March 1952.

Acheson, Dean G., Secretary of State from January 19, 1949 until January 20, 1953.

Ackerman, Ralph H., Ambassador in the Dominican Republic from August 27, 1948 until June 11, 1952.

Adams, Sherman, Assistant to the President from January 20, 1953.

Ageton, Arthur A., Ambassador in Paraguay from September 9, 1954 until April 10, 1957.

Alemán Valdes, Miguel, President of Mexico from December 1, 1946 until November 30, 1952.

Anderson, Robert B., Secretary of the Navy from February 4, 1953; Deputy Secretary of Defense from May 3, 1954 until August 4, 1955.

Andrade, Víctor, Bolivian Ambassador in the United States from August 1952 until October 1958.

Angel de la Campa y Caraveda, Miguel, Cuban Minister of State from March 1952.

Aranha, Oswaldo, Brazilian Minister of Finance from June 1953 until August 1954.

Araujo, Antonio Martín, Venezuelan Ambassador in the United States from February 8, 1951 until November 1952.

Arbenz Guzmán, Jacobo, President of Guatemala from March 15, 1951 until June 27, 1954.

Armour, Norman, Ambassador in Guatemala from October 18, 1954 until May 9, 1955.

Armstrong, W. Park, Jr., Special Assistant to the Secretary for Intelligence, Department of State, after June 11, 1950.

Arosemena, Alcibiades, President of Panama from May 10, 1951 until October 1, 1952.

Arosemena Monroy, Carlos Julio, Ecuadoran Minister of National Defense from September 1952 until August 1953.

Arroyo Torres, Ledo, Uruguayan Minister of National Defense from March 1952 until October 1954.

Atwood, Rollin S., Deputy Director, Office of South American Affairs, Department of State, from August 31, 1950; Director after November 11, 1951.

Ballivián Rojas, Hugo, Brigadier General, President of Bolivia from May 15, 1951 until April 9, 1952.

Barringer, J. Paul, Deputy Director, Office of Transport and Communication Policy, Department of State, from October 3, 1949; Director after July 6, 1952.

Barrios Tirado, Guillermo, General, Chilean Minister of Defense until November 1952.

Barros Ortiz, Tobías, Chilean Minister of Foreign Affairs from January until June 1954; thereafter Chilean Minister of National Defense.

Batista y Zaldívar, Fulgencio, General, President of Cuba from April 4, 1952 until January 1, 1959.

Battle, Lucius D., Special Assistant to the Secretary of State after June 26, 1951; Foreign Affairs Officer in the Office of the Special Assistant to the Secretary for Mutual Security Affairs after October 13, 1952; attaché at the Embassy in Denmark after January 30, 1953; First Secretary of the Embassy after July 26, 1954.

Beaulac, Willard L., Ambassador in Cuba from September 20, 1951 until August 9, 1953; Ambassador in Chile from November 5, 1953 until May 28, 1956.

Belton, William, Officer in Charge of Mexican Affairs, Office of Middle American Affairs, Department of State, from July 1952; Officer in Charge of West Coast Affairs, Office of South American Affairs, after August 1954.

Bennett, W. Tapley, Jr., Officer in Charge of Central America and Panama Affairs, Office of Middle American Affairs, Department of State, after January 16, 1950; Officer in Charge of Caribbean Affairs after July 8, 1951; Deputy Director, Office of South American Affairs, after October 17, 1951; detailed to the National War College in 1954.

Benson, Ezra T., Secretary of Agriculture from January 21, 1953 until January 20, 1961.

Berckemeyer, Fernando, Peruvian Ambassador in the United States from January 18, 1949 until December 1963.

Bernal, José María, Colombian Minister of War from September 1951 until May 1953.

Bernbaum, Maurice M., Officer in Charge of North and West Coast Affairs, Office of South American Affairs, Department of State, after August 1, 1951; Counselor of Embassy in Venezuela after June 22, 1953.

Betancourt, Rómulo, organizer and leader of the *Acción Democrática* political party in Venezuela; in political exile, 1948–1958.

Black, Eugene R., President and Chairman of the Executive Directors of the International Bank for Reconstruction and Development from May 19, 1949.

Boettner, Luís Oscar, Paraguayan Ambassador in the United States from August 5, 1949 until March 1954.

Boggs, Marion W., Coordinator, National Security Council Staff Assistants, 1952; Coordinator, National Security Council Board Assistants, 1953–1954.

Bohan, Merwin L., United States Representative on the Inter-American Economic and Social Council, with personal rank of Ambassador, from March 20, 1951; appointed United States Commissioner on the Joint Brazil-United States Commission for Economic Development, August 21, 1952; United States Representative on the Inter-American Economic and Social Council from August 16, 1953.

Bolaños, Oscar, Lieutenant Colonel, El Salvadoran Minister of Defense until December 1953.

Bolté, Charles L., Lieutenant General, United States Army, Chairman of the Inter-American Defense Board from January 2, 1951 until August 4, 1952.

Bowers, Claude G., Ambassador in Chile from September 7, 1939 until September 2, 1953.

Bowie, Robert R., Director of the Policy Planning Staff, Department of State, and State Member of the National Security Council Planning Board from May 18, 1953.

Bradley, Omar N., General of the Army, United States Army, Chairman of the Joint Chiefs of Staff from August 16, 1949 until August 14, 1953.

Brown, Winthrop G., Director, Office of International Materials Policy, Department of State, from November 21, 1951; attaché at the Embassy in the United Kingdom from June 13, 1952; Counselor of Embassy from August 20, 1952; Vice Chairman of the United States Delegation to the Eighth Session of the GATT from September 17, 1953 until October 24, 1953; Deputy Director, Foreign Operations Administration Mission in the United Kingdom, 1954.

Brownell, Herbert, Jr., Attorney General of the United States from January 21, 1953 until November 8, 1957.

Bruce, David K. E., Ambassador in France until March 10, 1952; Under Secretary of State from April 1, 1952 until January 20, 1953; Consultant to the Secretary of State until February 19, 1953; thereafter, United States Representative to the European Coal and Steel Community.

Bunker, Ellsworth, Ambassador in Argentina from May 8, 1951 until March 12, 1952; Ambassador in Italy from May 7, 1952 until April 3, 1953.

Burrows, Charles R., Deputy Director, Office of Regional American Affairs, Department of State, after May 21, 1951; Director, Office of Middle American Affairs, after July 2, 1953; Counselor of the Embassy in the Philippines after August 15, 1954.

Cabot, John M., Assistant Secretary of State for Inter-American Affairs from February 27, 1953; Ambassador in Sweden after May 6, 1954.

Cale, Edward G., Deputy Director, Office of Middle American Affairs, Department of State, from October 3, 1949; Director, Office of Regional American Affairs, from September 16, 1954 until January 1956.

Café Filho, João, Vice President of Brazil until August 24, 1954; President until November 8, 1955.

Canessa, Roberto, El Salvadoran Minister for Foreign Relations and Justice until 1955.

Carney, Robert B., Admiral, United States Navy, Commander in Chief, United States Naval Forces, Eastern Atlantic and Mediterranean, 1950–1952; Commander in Chief, Allied Forces, Southern Europe, 1952–1953; Chief of Naval Operations and Member of the Joint Chiefs of Staff after August 17, 1953.

Castellanos, Daniel, Uruguayan Minister of Foreign Relations as of 1952.

Castillo Armas, Carlos, Colonel, President of the Guatemalan Junta from July 8, 1954; President of Guatemala from September 2, 1954 until July 26, 1957.

Castro, Héctor David, El Salvadoran Ambassador in the United States from August 1945.

Chapin, Selden, Ambassador in Panama from January 22, 1954 until May 29, 1955.

Cháves, Federico, President of Paraguay from September 11, 1949 until May 8, 1954.

Chiriboga Villagómez, José Ricardo, Ecuadoran Ambassador in the United States from December 1952 until June 1956.

Collins, J. Lawton, General, United States Army, Chief of Staff, United States Army, until August 14, 1953; thereafter, United States Representative on the North Atlantic Treaty Organization Military Committee and Standing Group.

Corbett, Jack C., Deputy Director, Office of Financial and Development Policy, Bureau of Economic Affairs, Department of State, from November 26, 1950; Director after March 27, 1952.

CORSE, Carl D., Chief of the Commercial Policy Staff, Office of Economic Defense and Trade Policy, Department of State, from October 3, 1949 until January 14, 1955; Chairman, Interdepartmental Committee on Trade Agreements.

CRAIG, Howard A., Lieutenant General, Chairman of the Inter-American Defense Board from February 28, 1953 until March 15, 1955.

CRUZ-SALAZAR, José Luis, Guatemalan Ambassador in the United States after August 16, 1954.

CULBERTSON, Paul T., Counselor of Embassy in Mexico from January 8, 1951 until September 8, 1953.

CUTLER, Robert, Administrative Assistant to the President from January 21 until March 22, 1953; thereafter, Special Assistant to the President for National Security Affairs; member of the President's Committee on International Information Activities, 1953.

DANIELS, Paul C., Ambassador in Ecuador from May 25, 1951 until July 9, 1953.

DASSO, Andrés F., Peruvian Minister of Finance and Commerce until August 1952.

DAVIS, Roy T., Ambassador in Haiti from September 23, 1953 until May 9, 1957.

DE LA COLINA, Rafael, Mexican Ambassador in the United States from January 18, 1949 until March 1953.

DEL PEDREGAL HERRERA, Guillermo, Chilean Minister of Finance from October 1953 until June 1954.

DE MOYA ALONSO, Manuel, Brigadier General, Ambassador of the Dominican Republic in the United States from October 1953 until December 1954.

DÍAZ GRANADOS, Manuel, Ecuadoran Minister of Defense until August 1952.

DÍAZ ORDÓÑEZ, Virgilio, Secretary of State for Foreign Relations and Worship of the Dominican Republic until March 1953.

DODGE, Joseph M., Director of the Bureau of the Budget from January 21, 1953 until April 15, 1954; Special Assistant to the President and Chairman of the Council on Foreign Economic Policy after December 1, 1954.

DOMÍNGUEZ CÁMPORA, Alberto, Uruguayan Minister of Foreign Affairs from March 1951 until March 1952.

DOMINIQUE, Alexandre, Haitian Secretary of State for Finance from March 1952 until March 1953.

DREIER, John C., United States Representative on the Council of the Organization of American States, with personal rank of Ambassador, from January 7, 1951.

DUKE, Angier B., Ambassador in El Salvador from June 5, 1952 until May 21, 1953.

DULLES, Allen W., Deputy Director of Central Intelligence until February 26, 1953; thereafter, Director of Central Intelligence.

DULLES, John Foster, Consultant to the Secretary of State until April 1952; Secretary of State after January 21, 1953.

ECHANDI JIMÉNEZ, Mario, Costa Rican Minister for Foreign Affairs until February 1952.

EDGERTON, Glen E., Major General, United States Army (Retired), President and Managing Director, Export-Import Bank of Washington, 1953–1954.

ENCISO VELLOSO, Guillermo, Paraguayan Minister of Finance.

ERWIN, John D., Ambassador in Honduras from March 14, 1951 until February 28, 1954.

ESQUIVEL ARGUEDAS, Mario, Costa Rican Minister for Foreign Affairs from November 1953.

ETHÉART, Albert, Haitian Secretary of State for Foreign Affairs and Religion from March 1952 until March 1953.

Evans, John W., Deputy Director, Office of International Materials Policy, Department of State, from November 21, 1951; Director from August 4, 1952; Acting Director, Office of Economic Defense and Trade Policy, from May 1, 1954.

Facio, Antonio A., Costa Rican Ambassador in the United States from February 9, 1954.

Fechteler, William M., Admiral, United States Navy, Chief of Naval Operations from August 16, 1951 until August 17, 1953; thereafter, Commander in Chief of Allied Forces in Southern Europe.

Fenner Marín, Oscar, Chilean Minister for Foreign Relations from April until December 1953.

Fernandes, Raúl, Brazilian Minister of Foreign Affairs from September 1954.

Fernandez Concheso, Aurelio, Cuban Ambassador in the United States from May 14, 1952.

Figueres Ferrer, José, President of Costa Rica from November 8, 1953 until May 7, 1958.

FitzGerald, Dennis A., Assistant Administrator for Supply, Economic Cooperation Administration (subsequently the Mutual Security Agency), after June 30, 1951; Associate Deputy Director of the Mutual Security Agency (subsequently Foreign Operations Administration) from May 19, 1952; Deputy Director for Operations in the Foreign Operations Administration after October 12, 1953.

Fleischmann, Manly, Administrator, Defense Production Administration, 1952.

Fleming, Arthur B., Ambassador in Costa Rica from November 20, 1951 until August 7, 1953.

Flemming, Arthur S., Director, Office of Defense Mobilization, 1953–1954.

Foster, William C., Administrator of the Economic Cooperation Administration from October 1950 to September 1951; Deputy Secretary of Defense until January 1953.

Gálvez, Juan Manuel, President of Honduras from January 1, 1949 until November 16, 1954.

Gardner, Arthur, Ambassador in Cuba from October 16, 1953.

Gaston, Herbert E., President and Managing Director, Export-Import Bank of Washington, until August 1953.

Giron, Felipe Antonio, Colonel, Chief of the Guatemalan Air Force, 1951–1952.

Gleason, S. Everett, Deputy Executive Secretary of the National Security Council after January 1950.

Glendinning, C. Dillon, Secretary of the National Advisory Council on International Monetary and Financial Problems from 1948; Deputy Director, Office of International Finance, Department of the Treasury, 1950; thereafter, Adviser to the Secretary of the Treasury.

Gómez, Laureano, President of Colombia from August 7, 1950 until October 31, 1951.

Gómez Morales, Alfredo, Argentine Minister of Economic Affairs.

Gómez Ruiz, Luís Emilio, Venezuelan Minister for External Relations until December 1952.

González, César, Venezuelan Ambassador in the United States from December 12, 1952 until February 1958.

González Videla, Gabriel, President of Chile from November 3, 1946 until November 3, 1952.

Gudin, Eugenio, Brazilian Minister of Finance from September 1954 until April 1955.

Guevara Arze, Wálter, Bolivian Minister of Foreign Affairs and Worship from April 1952 until January 1956.

Guizado Valdes, José Ramón, Panamanian Minister for Foreign Relations from October 1952.

Gutiérrez Granier, Federico, Bolivian Minister of Finance from April 1952 until October 1953.

Hagerty, James C., Press Secretary to the President after January 21, 1953.

Halle, Louis J., Jr., Member of the Policy Planning Staff, Department of State, from August 20, 1950.

Hardesty, Marion N., Special Assistant to the Director of the Foreign Operations Administration from July 1, 1953; Acting Regional Director, Office of Latin American Operations, Foreign Operations Administration, from February 1, 1954.

Harriman, W. Averell, Director of the Mutual Security Agency from November 1951 until January 1953.

Hauge, Gabriel, Administrative Assistant and then Special Assistant for Economic Affairs to the President from January 21, 1953.

Hensel, H. Struve, General Counsel, Department of Defense, from August 17, 1953 until March 4, 1954; Assistant Secretary of Defense (International Security Affairs) after March 5, 1954.

Herrera, Felipe, Chilean Minister of Finance from June until October 1953.

Hibbert, Lucien, Haitian Secretary of State for Finance and National Economy from April 1953 until July 1954.

Hill, Robert C., Ambassador in Costa Rica from November 4, 1953 until September 10, 1954; Ambassador in El Salvador from November 4, 1954 until September 21, 1955.

Holguín, Juan Uribe, Colombian Minister for Foreign Relations from May 1952 until May 1953.

Holland, Henry F., Assistant Secretary of State for Inter-American Affairs from March 2, 1954 until September 13, 1956.

Hoover, Herbert, Jr., Consultant to the Secretary of State after October 14, 1953; Under Secretary of State after October 4, 1954.

Huertematte, Roberto M., Panamanian Ambassador in the United States from October 2, 1951 until February 1955.

Hughes, Rowland R., Deputy Director of the Bureau of the Budget from May 1953; Director after April 15, 1954.

Humphrey, George M., Secretary of the Treasury from January 21, 1953 until July 28, 1957.

Ibáñez del Campo, Carlos, General, President of Chile from November 3, 1952 until November 3, 1958.

Jackson, C. D., Special Assistant to the President from February 16, 1953 until March 31, 1954; United States Delegate to the Ninth Session of the General Assembly of the United Nations, 1954.

Jamison, Edward A., Deputy Director, Office of Regional American Affairs, Department of State, from September 14, 1952.

Jara, Aníbal, Chilean Ambassador in the United States from February 24, 1953 until February 1955.

Johnson, Herschel V., Ambassador in Brazil from July 22, 1948 until May 27, 1953.

Jumelle, Clément, Haitian Secretary of State for Finance and National Economy from August 1954 until August 1956.

Jumelle, Ducasse, Haitian Secretary of State for Interior, National Defense, and Justice from April 1953 until July 1954.

Kalijarvi, Thorsten V., Deputy Assistant Secretary of State for Economic Affairs from September 1, 1953.

Kemper, James S., Ambassador in Brazil from August 18, 1953 until January 26, 1955.

Key, David McK., Assistant Secretary of State for United Nations Affairs from December 18, 1953; Assistant Secretary of State for International Organization Affairs from August 25, 1954.

Kreps, Kenneth R., Colonel, United States Air Force, Deputy Director of the Executive Office of the Secretary of Defense, Department of Defense, 1951–1952.

Kyes, Roger M., Deputy Secretary of Defense from February 2, 1953 until May 1, 1954.

Láfer, Horacio, Brazilian Minister of Finance from February 1951 until July 1953.

Lara Bustamente, Fernando, Costa Rican Minister for Foreign Affairs from February until November 1953.

Lay, James S., Jr., Executive Secretary of the National Security Council from 1950 to 1961.

Leddy, John M., Director, Office of Economic Defense and Trade Policy, Department of State, from November 21, 1951; Acting Deputy Assistant Secretary of State for Economic Affairs after April 15, 1953.

Leddy, Raymond G., First Secretary of the Embassy in Venezuela from June 20, 1951; Officer in Charge of Central America and Panama Affairs, Office of Middle American Affairs, Department of State, after January 18, 1953.

Léger, Jacques, Haitian Secretary of State for Foreign Affairs and Worship until February 1952; Haitian Ambassador in the United States from April 22, 1952 until December 1955.

Liautaud, Pierre, Haitian Secretary of State for Foreign Affairs and National Education from April 1953 until July 1954.

Linder, Harold F., Deputy Assistant Secretary of State for Economic Affairs from February 15, 1951; Assistant Secretary of State for Economic Affairs from December 12, 1952 until May 15, 1953.

Lodge, Henry Cabot, Jr., United States Representative at the United Nations after January 26, 1953.

Lourie, Donold B., Under Secretary of State for Administration from February 16, 1953 until March 5, 1954.

Lovett, Robert A., Secretary of Defense until January 20, 1953.

Lozano Díaz, Julio, Acting President of Honduras from November 16, 1954; President from December 6, 1954 until October 21, 1956.

MacArthur, Douglas, II, Counselor of Embassy in France until October 15, 1952; Counselor of the Department of State after March 30, 1953.

MacDonald, Thomas H., Commissioner, Bureau of Public Roads, Department of Commerce, 1951–1952.

Machado, Luis, Cuban Ambassador in the United States until April 1952.

Magloire, Paul E., President of Haiti from December 6, 1950 until December 12, 1956.

Mann, Thomas C., Deputy Assistant Secretary of State for Inter-American Affairs from November 10, 1950; Counselor of Embassy in Greece from August 2, 1953; Counselor of Embassy in Guatemala from September 16, 1954.

Martínez Trueba, Andrés, Chairman of the Uruguayan Council of Government from March 1, 1951; President of Uruguay after March 1, 1952.

Martínez Vargas, Ricardo, Bolivian Ambassador in the United States until July 1952.

Matthews, H. Freeman, Deputy Under Secretary of State for Political Affairs until October 11, 1953; Ambassador in the Netherlands from November 25, 1953.

McDermott, Michael J., Ambassador in El Salvador from June 25, 1953 until September 28, 1954.

McIntosh, Dempster, Ambassador in Uruguay from November 12, 1953 until April 3, 1956.

McWilliams, William J., Director, Executive Secretariat, Department of State, until August 19, 1953.

Memminger, Robert B., Counselor of Embassy in Panama from September 18, 1952.

Mendieta Alvárez, Alberto, Bolivian Minister of Finance after October 1953.

Miller, Edward G., Jr., Assistant Secretary of State for Inter-American Affairs from June 28, 1949 until December 31, 1952.

Mills, Sheldon T., Ambassador in Ecuador from August 19, 1954 until April 6, 1956.

Minnich, L. Arthur, Jr., Assistant Staff Secretary in the White House after January 21, 1953.

Mora, José A., Uruguayan Ambassador in the United States from March 26, 1951 until August 1956.

Moreira Salles, Walther, Brazilian Ambassador in the United States from June 12, 1952 until August 1953.

Moreno González, José Antonio, Paraguayan Minister for Foreign Relations and Worship from July 1953.

Morgan, Gerald D., Consultant to the President from January until September 1953; Administrative Assistant to the President from September 1953 until February 1955.

Morse, True D., Under Secretary of Agriculture after January 29, 1953.

Morton, Thruston B., Assistant Secretary of State for Congressional Relations from January 30, 1953 until February 29, 1956.

Muccio, John J., Deputy Chairman of the Interdepartmental Committee on Relations with Panama after July 16, 1953.

Muniz, João Carlos, Brazilian Ambassador in the United States from October 20, 1953 until June 1956.

Murphy, Robert D., Ambassador in Belgium until March 19, 1952; Ambassador in Japan from May 9, 1952 until April 28, 1953; appointed Assistant Secretary of State for United Nations Affairs on March 20, 1953; Political Adviser to the United Nations Command on the Korean Armistice Negotiations from April until July 1953; Assistant Secretary of State for United Nations Affairs after May 31, 1953; Acting Deputy Under Secretary of State in addition to duties as Assistant Secretary of State for United Nations Affairs from November 30 until December 18, 1953; Deputy Under Secretary of State for Political Affairs after December 18, 1953.

Nash, Frank C., Assistant for International Security Affairs to the Secretary of Defense until February 10, 1953; Assistant Secretary of Defense (International Security Affairs) until February 28, 1954.

Neal, Jack D., Acting Officer in Charge of Mexican Affairs, Office of Middle American Affairs, Department of State, from October 17, 1951; Deputy Director, Bureau of Inter-American Affairs, after July 6, 1952.

Neves da Fontoura, João, Brazilian Minister of State for Foreign Relations from January 1951 until June 1953.

Newbegin, Robert, Director, Office of Middle American Affairs, Department of State, from August 15, 1954.

Nieto del Río, Félix, Chilean Ambassador in the United States until February 1953.

Nitze, Paul H., Director, Policy Planning Staff, Department of State, until April 1953.

Nolan, Charles P., Officer in Charge of Transportation and Communications, Office of Regional American Affairs, Department of State, after January 25, 1951.

Nolting, Frederick E., Jr., Special Assistant to the Deputy Under Secretary of State after October 14, 1951; Acting Special Assistant to the Secretary for Mutual Security Affairs from August 4, 1953; Special Assistant to the Secretary for Mutual Security Affairs from January 4, 1954.

Noriega, Zenón, General, Peruvian Minister of War.

Nufer, Albert F., Director, Office of Middle American Affairs, Department of State, from January 17, 1951; Ambassador in Argentina from May 29, 1952 until May 12, 1956.

Nyrop, Donald W., Chairman of the Civil Aeronautics Board.

Ocampos, Bernardo, Paraguayan Minister of Foreign Affairs until July 1953.

O'Connor, Roderic L., Assistant to the Secretary of State from January 21, 1953; Special Assistant to the Secretary of State from February 21, 1954.

Odría y Amoretti, Manuel A., President of Peru from July 28, 1950 until July 28, 1956.

O'Dwyer, William, Ambassador in Mexico until December 6, 1952.

Ohly, John H., Assistant Director for Policy and Program Development in the Office of the Director of the Mutual Security Agency after October 14, 1951; Assistant Director for Programs in the Office of the Director of the Mutual Security Agency after April 17, 1952; Deputy to the Deputy for Program Coordination in the Mutual Security Agency after March 23, 1953; Deputy Director for Programs and Planning in the Foreign Operations Administration after October 1, 1953.

Ohmans, John L., International Economist, Office of Middle American Affairs, Department of State, after June 25, 1950; Officer in Charge of Costa Rica and Nicaragua Affairs, Office of Middle American Affairs, after February 1, 1953.

Olavarría Bravo, Arturo, Chilean Minister for Foreign Affairs from November 1952 until March 1953.

Oreamuno, J. Rafael, Costa Rican Ambassador in the United States from November 21, 1950 until January 1954.

Osegueda, Raúl, Guatemalan Minister for Foreign Relations from November 20, 1952 until January 19, 1954.

Osorio, Oscar, President of El Salvador from September 14, 1950 until September 14, 1956.

Otáñez, Aureliano, Venezuelan Minister for Foreign Relations after December 2, 1952.

Overby, Andrew N, Assistant Secretary of the Treasury from January 24, 1952 until February 28, 1957.

Pace, Frank, Jr., Secretary of the Army until January 21, 1953.

Padilla Nervo, Luis, Mexican Secretary for Foreign Relations from December 1, 1952.

Paz, Hipólito Jesús, Argentine Ambassador in the United States from August 10, 1951 until October 1956.

Paz Estenssoro, Victor, President of Bolivia from April 16, 1952 until August 6, 1956.

Pereira, Tomás Romero, Provisional President of Paraguay, May 8 to August 15, 1954.

PÉREZ JIMÉNEZ, Marcos, Chief of the General Staff of the Venezuelan Ministry of Defense and Member of the *Junta Militar de Gobierno* until December 1952; Provisional President of Venezuela from December 2, 1952 until April 19, 1953; thereafter, President.

PERÓN, Juan Domingo, President of Argentina until September 22, 1955.

PEURIFOY, John E., Ambassador in Guatemala from November 4, 1953 until October 2, 1954.

PHEIFFER, William T., Ambassador in the Dominican Republic from June 29, 1953 until June 2, 1957.

PHELPS, Phelps, Ambassador in the Dominican Republic from July 29, 1952 until May 30, 1953.

PITTALUGA, Fructuoso, Uruguayan Minister for Foreign Relations.

PLAZA LASSO, Galo, President of Ecuador until September 1, 1952.

PONCE, L. Neftalí, Ecuadoran Minister for Foreign Affairs until August 1952.

PRAT ECHAURREN, Jorge, Chilean Minister of Finance from June 1954 until January 1955.

PRÍO SOCCARÁS, Carlos, President of Cuba until March 10, 1952.

RADFORD, Arthur W., Admiral, United States Navy, Chairman of the Joint Chiefs of Staff after August 15, 1953.

RADIUS, Walter A., Director of the Management Staff, Office of the Deputy Under Secretary of State for Administration, from July 1952; Operations Coordinator in the Office of the Under Secretary of State from September 14, 1953 until November 4, 1954; thereafter, Special Assistant to the Assistant Secretary of State for Economic Affairs.

RANDALL, Clarence B., Chairman of the President's Commission on Foreign Economic Policy, 1953-1954; thereafter Special Assistant to the President for Foreign Economic Policy.

RANDALL, Harold M., Counselor of Embassy for Economic Affairs in Mexico after January 19, 1950; Counselor of Embassy for Economic Affairs in Cuba after April 15, 1952.

RANKIN, J. Lee, Assistant Attorney General, Office of the Legal Counsel, Department of Justice, 1953.

RÁO, Vicente, Brazilian Minister of State for Foreign Relations from July 1953 until August 1954.

REMÓN CANTERA, José Antonio, President of Panama from October 1, 1952 until January 3, 1955.

REMORINO, Jerónimo, Argentine Minister of Foreign Relations after June 28, 1951.

RESTREPO-JARAMILLO, Cipriano, Colombian Ambassador in the United States from June 5, 1951 until August 3, 1953.

RIDGWAY, Matthew B., General, United States Army, Commander in Chief, Far East, and Commander in Chief, United Nations Command, until May 1952; Supreme Allied Commander, Europe, from June 1952 until May 1953; Chief of Staff, United States Army, after August 15, 1953.

ROBINSON, Hamlin, Assistant Chief, Investment and Economic Development Staff, Bureau of Economic Affairs, Department of State, after October 30, 1949; Special Assistant, Office of Financial and Development Policy, 1953.

RODDAN, Edward L., Ambassador in Uruguay from December 27, 1951 until October 12, 1953.

ROJAS PINILLA, Gustavo, General, President of Colombia from June 13, 1953 until May 10, 1957.

ROSSETI, Juan B., Chilean Minister of Finance from November 1952 until June 1953.

Rubottom, Roy R., Jr., Officer in Charge of Mexican Affairs, Office of Middle American Affairs, Department of State, from November 14, 1951; Director, Office of Middle American Affairs, after June 22, 1952; First Secretary and Consul in the Embassy in Spain after June 5, 1953; Counselor of Embassy and Deputy Chief of the Foreign Operations Mission, after October 21, 1954.

Ruiz Cortines, Adolfo, President of Mexico from December 1, 1952 until November 30, 1958.

Salazar Gatica, Carlos, Guatemalan Minister of Foreign Relations after July 5, 1954.

Saltzman, Charles E., Under Secretary of State for Administration from June 28 until December 31, 1954.

Sánchez, José Angel, Colonel, Guatemalan Minister of Defense until July 1954.

Sánchez Arango, Aureliano, Cuban Minister of State until March 1952.

Schaetzel, J. Robert, Special Assistant to the Assistant Secretary of State for Economic Afairs until August 15, 1954.

Schwartz, Harry H., member of the Policy Planning Staff, Department of State, State Representative on the National Security Council Planning Board from May 1953 until March 1954.

Schneider, J. Thomas, Assistant Secretary of Commerce for International Affairs, 1952–1953.

Schoenfeld, Rudolf E., Ambassador in Guatemala until October 19, 1953; Ambassador in Colombia from January 28, 1954 until January 26, 1955.

Scott, Walter K., Deputy Assistant Secretary of State for Administration until March 21, 1954; thereafter, Director, Executive Secretariat.

Sevilla Sacasa, Guillermo, Nicaraguan Ambassador in the United States.

Sevilla Sacasa, Oscar, Nicaraguan Minister for Foreign Affairs.

Shaw, George P., Ambassador in El Salvador from August 23, 1947 until April 25, 1952; Ambassador in Paraguay from July 1, 1952 until October 31, 1953.

Sibert, Edwin L., Brigadier General, United States Army, Director of Staff, Inter-American Defense Board, until April 24, 1952.

Siracusa, Ernest V., Officer in Charge of Central America and Panama Affairs, Office of Middle American Affairs, Department of State, from July 8, 1951; Second Secretary and Consul in the Embassy in Argentina after September 19, 1952; First Secretary after March 1, 1954.

Smith, Walter Bedell, Director of Central Intelligence from October 7, 1950; Under Secretary of State from February 9, 1953 until October 1, 1954.

Snyder, John W., Secretary of the Treasury and Chairman of the National Advisory Council on International Monetary and Financial Problems until January 1953.

Somoza García, Anastasio, President of Nicaragua from May 1, 1951 until September 29, 1956.

Sosa Molina, José Humberto, Argentine Minister of Defense.

Sourdis, Evaristo, Colombian Minister for Foreign Relations from June 1953 until September 1956.

Southard, Frank A., Jr., Special Assistant to the Secretary of the Treasury; United States Executive Director, International Monetary Fund.

Spalding, Hobart A., Intelligence Adviser, Bureau of Inter-American Affairs, Department of State, 1952–1953.

Sparks, Edward J., Ambassador in Bolivia from June 13, 1952 until October 29, 1954; Deputy Assistant Secretary of State for Inter-American Affairs from December 5, 1954.

Spencer, George O., Reports and Intelligence Adviser, Bureau of Inter-American Affairs, Department of State, after August 5, 1951; Special Assistant for Inter-American Military Assistance Affairs, 1954.

Staats, Elmer B., Executive Officer of the Operations Coordinating Board, 1953–1954.

Stassen, Harold E., Director of the Mutual Security Agency after January 20, 1953; Director of the Foreign Operations Administration after August 1, 1953.

Stevens, Robert T., Secretary of the Army from February 4, 1953 until July 20, 1955.

Stinebower, Leroy D., Director, Office of Financial and Development Policy, Bureau of Economic Affairs, Department of State.

Stow, David, Administrative Assistant to the President, 1949–1953.

Strauss, Lewis L., Rear Admiral, United States Navy, Special Assistant to the President on Atomic Energy Matters after March 9, 1953; Chairman of the Atomic Energy Commission after July 2, 1953.

Stroessner, Alfredo, General, President of Paraguay after August 15, 1954.

Suárez Flamerich, Germán, President of the Government Junta in Venezuela until December 3, 1952.

Tello, Manuel, Mexican Secretary for Foreign Affairs from August 1951 until December 1952; Ambassador in the United States after March 18, 1953.

Tewksbury, Howard H., Ambassador in Paraguay from January 9, 1951 until February 16, 1958.

Thomas, Charles S., Secretary of the Navy after May 3, 1954.

Thomen, Luis Francisco, Ambassador of the Dominican Republic in the United States until September 1953.

Thorp, Willard L., Assistant Secretary of State for Economic Affairs until November 15, 1952.

Tittmann, Harold H., Jr., Ambassador in Peru from September 27, 1948 until March 30, 1955.

Toriello Garrido, Guillermo, Guatemalan Ambassador in the United States from September 1952 until May 1954; Guatemalan Minister of Foreign Affairs, January–July 1954.

Trujillo Molina, Héctor B., Generalissimo, President of the Dominican Republic after August 16, 1952.

Trujillo Molina, Rafael L., Generalissimo, President of the Dominican Republic until August 16, 1952; Secretary of State for Foreign Relations, March–August 1953.

Ulate Blanco, Otilio, President of Costa Rica from November 8, 1949 until November 8, 1953.

Urdaneta Arbelaez, Roberto, Acting President of Colombia from October 31, 1951 until June 13, 1953.

Valenzuela, J. Edgardo, Honduran Minister for Foreign Relations.

Vandenberg, Hoyt S., General, United States Air Force, Chief of Staff of the United States Air Force intil June 29, 1953.

Vargas, Getúlio Dornelles, President of Brazil from January 31, 1951 until August 24, 1954.

Velasco Ibarra, José María, President of Ecuador from September 1, 1952 until August 31, 1956.

Vernon, Raymond, Deputy Director, Office of Economic Defense and Trade Policy, Department of State, after November 21, 1951.

Wailes, Edward T., Chief Inspector of the Foreign Service Inspection Corps from June 4, 1952; Assistant Secretary of State for Administration from May 26, 1953; Assistant Secretary of State for Personnel and Administration from March 26, 1954; Ambassador to South Africa after September 15, 1954.

Walsh, Robert L., Major General, United States Air Force, Chairman of the Inter-American Defense Board from August 4, 1952 until February 28, 1953.

Warren, Fletcher, Ambassador in Venezuela from November 21, 1951 until March 24, 1956.

Waugh, Samuel C., Assistant Secretary of State for Economic Affairs after June 5, 1953.

Waynick, Capus M., Ambassador in Colombia from August 23, 1951 until September 21, 1953.

Webb, James E., Under Secretary of State until February 29, 1952.

Webster, Robert M., Major General, United States Army, Chairman of the United States Delegation to the Inter-American Defense Board, 1953–1954.

Weeks, Sinclair, Secretary of Commerce from January 21, 1953 until November 10, 1958.

Welch, Rolland, Deputy Director, Office of South American Affairs, Department of State, after August 23, 1954.

Wellman, Harvey R., Acting Officer in Charge of Caribbean Affairs, Office of Middle American Affairs, Department of State, from October 17, 1951; Officer in Charge of Caribbean Affairs after March 28, 1954.

Wells, Milton K., Adviser on Security Council and General Assembly Affairs to the United States Mission at the United Nations from June 30, 1952.

Whelan, Thomas E., Ambassador in Nicaragua from November 3, 1951 until March 22, 1961.

White, Francis, Ambassador in Mexico from April 28, 1953.

Whitman, Ann C., personal secretary to President Eisenhower from January 21, 1953.

Wiley, John C., Ambassador in Panama from July 25, 1951 until November 27, 1953.

Willauer, Whiting, Ambassador in Honduras from March 5, 1954 until March 24, 1958.

Willis, George H., Director, Office of International Finance, Department of the Treasury.

Wilson, Charles Edward, Director, Office of Defense Mobilization, until January 28, 1953.

Wilson, Charles Erwin, Secretary of Defense after January 28, 1953.

Woodward, Robert F., Special Assistant to the Assistant Secretary of State for Inter-American Affairs from May 25, 1953; Deputy Assistant Secretary of State for Inter-American Affairs from August 2, 1953; appointed Ambassador in Costa Rica September 25, 1954, presented credentials December 3, 1954.

Yrarrázaval Concha, Eduardo, Chilean Minister of Foreign Affairs from June 1951 until July 1952.

LIST OF SOURCES

PART A. UNPUBLISHED SOURCES

The following is a list of files and collections of official and private papers consulted in the preparation of this volume.

Department of State

Indexed Central Files

Papers in the indexed Central Files of the Department of State for the years 1952–1954, now located in the National Archives Building, Washington, D.C., in the custody of the National Archives and Records Service, are indicated by a decimal file number in the headnote.

A/MS Files, Lot 54 D 291

Consolidated administrative files of the Department of State for the years 1940–1960, as maintained by the Management Staff of the Bureau of Administration.

ARA Files, Lot 57 D 618

Files of the Special Assistant in the Bureau of Inter-American Affairs for the year 1954, and miscellaneous subject files relating to the Caracas Conference, antitrust proceedings against United Fruit Company, and Guatemala for the years 1946–1956, as retired by the Bureau of Inter-American Affairs.

ARA/REA Files, Lot 57 D 597

Files relating to the Mutual Security Program for the period 1951–1956, as retired by the Office of Inter-American Regional Economic Affairs.

Cabot Files, Lot 56 D 13

Exchanges of official–informal correspondence between Assistant Secretary of State for Inter-American Affairs John M. Cabot and Chiefs of Mission in Latin America, for the period January 1953–March 1954, as maintained by the Bureau of Inter-American Affairs.

Conference Files, Lot 59 D 95

Collection of documentation on certain official visits of European heads of government and foreign ministers to the United States and on major international conferences (including North Atlantic Council Sessions) attended by the Secretary of State for the period 1949–1955, as maintained by the Executive Secretariat of the Department of State.

Conference Files, Lot 60 D 627

Collection of documentation on official visits by heads of government and foreign ministers to the United States, and on major international conferences attended by the Secretary of State for the period 1956-1958, as maintained by the Executive Secretariat of the Department of State.

Department of State Press Releases, Lot 77 D 9

Record set of the Department of State's press releases, arranged in volumes, for the period 1912–1970, as retired by the Office of Press Relations in the Office of the Secretary of State.

Guatemala Embassy Files, Lot 59 F 15

Classified subject files of the Embassy in Guatemala for the years 1950–1952, which are part of Federal Records Accession No. 59 A 543.

Guatemala Embassy Files, Lot 60 F 65

Classified subject files of the Embassy in Guatemala for the years 1953–1955, which are part of the Federal Records Center Accession No. 61 A 17.

Holland Files, Lot 57 D 295

Memoranda and exchanges of official-informal correspondence between Assistant Secretary of State for Inter-American Affairs Henry F. Holland and Chiefs of Mission in Latin America, for the period 1954–1956, as maintained by the Office of the Assistant Secretary of State for Inter-American Affairs.

INR Files

Files retained by the Bureau of Intelligence and Research.

INR–NIE Files

Files of National Intelligence Estimates, Special Estimates, and Special National Intelligence Estimates, retained by the Directorate for Regional Intelligence, Bureau of Intelligence and Research.

Mann–Woodward Files, Lot 57 D 598

Functional files of the Deputy Assistant Secretary of State for Inter-American Affairs (principally Thomas C. Mann and Robert F. Woodward), for the period 1946–1954, as maintained by the Office of the Deputy Assistant Secretary of State for Inter-American Affairs.

Mann–Woodward Files, Lot 57 D 634

Top secret letters and memoranda from the functional files of the Deputy Assistant Secretary of State for Inter-American Affairs (principally Thomas C. Mann and Robert F. Woodward), for the period 1948–1954, as maintained by the Office of the Deputy Assistant Secretary of State for Inter-American Affairs.

MID Files, Lot 57 D 9

Chronological and subject files relating to Guatemala for the years 1944–1954, as retired by the Office of Middle American Affairs.

MID Files, Lot 57 D 15

Chronological and subject files relating to Costa Rica and Nicaragua for the period 1952–1956, as retired by the Office of Middle American Affairs.

MID Files, Lot 57 D 95

Chronological files relating to Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama for the years 1947–1956, as retired by the Office of Middle American Affairs.

MID Files, Lot 58 D 18

Chronological files relating to Guatemala for the year 1954, as retired by the Office of Middle American Affairs.

MID Files, Lot 58 D 78

Chronological and subject files relating to Guatemala for the years 1945–1952, as retired by the Office of Middle American Affairs.

Miller Files, Lot 53 D 26

Files of Assistant Secretary of State for Inter-American Affairs Edward G. Miller, Jr., for the years 1949–1953.

MSA–FOA Director's Files, FRC 56 A 632

General subject and country files from the Office of the MSA–FOA Director covering the foreign aid program for the years 1952–1955 (W–1444). These files were retired by the International Cooperation Administration (ICA) and are a part of Federal Records Center Accession No. 56 A 632.

MSA–FOA Message Files, FRC 55 A 374

Telegrams, airgrams, despatches, and reports to and from all overseas missions from January 1, 1953 to June 30, 1954, as maintained by MSA–FOA headquarters (W–130, W–131, W–136, W–140). These files were retired by the FOA and are part of Federal Records Center Accession No. 55 A 374.

NAC Files, Lot 60 D 137

Master file of documents of the National Advisory Council on International Monetary and Financial Problems for the years 1945–1958, as maintained by the Bureau of Economic Affairs of the Department of State.

OAS Files, Lot 60 D 665

Basic collection of records of meetings of the Organization of American States, other major inter-American governmental organizations, and inter-American conferences together with related subject files for the years 1939–1962, as maintained by the Office of Inter-American Regional Political Affairs.

PPS Files, Lot 64 D 563

Master file of documents, drafts, records of meetings, memoranda, and related correspondence of the Policy Planning Staff for the years 1947–1953.

PPS Files, Lot 65 D 101

Master file of documents, drafts, records of meetings, memoranda, and related correspondence of the Policy Planning Staff for the year 1954.

Presidential Correspondence, Lot 66 D 204

Exchanges of correspondence between the President and the heads of foreign governments for the years 1953–1964, as maintained by the Executive Secretariat of the Department of State.

Secretary's Actions, Lot 61 D 258

Summary statements, under varying titles, of major activities of the Secretary and Under Secretary of State for the period November 1954 through 1960, as maintained by the Executive Secretariat of the Department of State.

Secretary's Daily Meetings, Lot 58 D 609

Chronological collection of the Secretary of State's daily meetings with top Department of State officials for the years 1949–1952, as maintained by the Special Assistant to the Secretary of State.

Secretary's Letters, Lot 56 D 459

Correspondence of the Secretary of State for the years 1945–1956, as maintained by the Executive Secretariat of the Department of State.

Secretary's Memoranda, Lot 53 D 444

Comprehensive chronological collections of the Secretary of State's memoranda, memoranda of conversation, and memoranda of conversation with the President for the years 1947–1953, as maintained by the Executive Secretariat of the Department of State.

Secretary's Memoranda of Conversation, Lot 64 D 199

Chronological collection of the Secretary of State's memoranda of conversation and the Under Secretary of State's memoranda of conversation for the years 1953–1960, as maintained by the Executive Secretariat of the Department of State.

Secretary's Memoranda of Conversation, Lot 65 D 238

Chronological collection of the Secretary of State's memoranda of conversation with the President for the years 1949–1952, memoranda of the Secretary of State and the Under Secretary of State for the years 1951–1952, and the Secretary of State's memoranda of conversation with Senator Tom Connally of Texas for the years 1950–1951, as maintained by the Executive Secretariat of the Department of State.

Secretary's Staff Meetings, Lot 63 D 75

Chronological collection of the minutes of the Secretary of State's staff meetings during the years 1952–1960, as maintained by the Executive Secretariat of the Department of State.

S/P–NSC Files, Lot 61 D 167

Serial file of memoranda relating to National Security Council questions for the years 1950–1961, as maintained by the Policy Planning Staff.

S/P–NSC Files, Lot 62 D 1

Serial and subject master file of National Security Council documents and correspondence for the years 1948–1961, as maintained by the Policy Planning Staff.

S/S–NSC Files, Lot 63 D 351

Serial master file of National Security Council documents and correspondence and related Department of State memoranda for the years 1947–1961, as maintained by the Executive Secretariat of the Department of State.

S/S–OCB Files, Lot 62 D 430

Master files of the Operations Coordinating Board for the years 1953–1960, as maintained by the Executive Secretariat of the Department of State.

State-JCS Meetings, Lot 61 D 417

Top secret records of meetings between representatives of the Department of State and the Joint Chiefs of Staff for the period 1951-1959 and selected problem files on the Middle East for the period 1954-1956, as maintained by the Executive Secretariat of the Department of State.

Under Secretary's Meetings, Lot 53 D 250

Master file of records, documents, summaries, and agenda of the Under Secretary's meetings for the years 1949-1952, as maintained by the Executive Secretariat of the Department of State.

U/MSA Files, Lot 56 D 551

Files for the period 1954-1956 retained for the use of the Secretary of State's Special Assistant for Mutual Security Affairs, as maintained by the Office of the Special Assistant for Mutual Security Affairs.

Dwight D. Eisenhower Library, Abilene, Kansas

Eisenhower Library, Eisenhower Records

The daily appointment books of President Eisenhower for the years 1953-1961.

Eisenhower Library, James C. Hagerty Papers

Papers of James C. Hagerty, Press Secretary to the President, for the years 1953-1961.

Eisenhower Library, Eisenhower Papers, Whitman File

Papers of Dwight D. Eisenhower as President of the United States for the years 1953-1961. This collection, which was maintained by the President's personal secretary Ann Whitman, and subsequently called the "Whitman File", has several major component parts, including the National Security Council File, the International Meeting File, and the International File.

Princeton University Library, Princeton, New Jersey

Dulles Papers, Daily Appointments

Daily log of the meetings and appointments of Secretary of State John Foster Dulles for the years 1953-1959.

Willauer Papers

The papers of Whiting Willauer for the period 1941-1961, including materials relating to his career as Ambassador to Honduras, 1954-1958, and Ambassador to Costa Rica, 1958-1961.

Harry S. Truman Library, Independence, Missouri

Truman Papers, President's Secretary's File (PSF)

Papers of Harry S. Truman as President of the United States for the period 1945-1953, as maintained by his personal secretary.

PART B. PUBLISHED WORKS

The following publications, including secondary accounts, were consulted in the preparation of this volume. Citations to additional published documents, memoirs, and other primary sources are provided throughout the volume as appropriate. No responsibility is taken by the Department of State for the accuracy of events set forth in unofficial sources.

Dean Acheson, *Present at the Creation: My Years in the State Department* (New York, W.W. Norton, 1969).

Sherman Adams, *First-Hand Report* (New York, Harper & Row, 1951).

Stephen E. Ambrose, with Richard Immerman, *Ike's Spies: Eisenhower and the Espionage Establishment* (Garden City, New York, Doubleday & Co., 1981).

John Moors Cabot, *First Line of Defense: Forty Years' Experiences of a Career Diplomat* (Washington, School of Foreign Service at Georgetown University, n.d.).

William Colby, *Honorable Men: My Life in the CIA* (New York, Simon and Schuster, 1978).

Blanche Wiesen Cook, *The Declassified Eisenhower: A Divided Legacy* (Garden City, N.Y., Doubleday & Co., Inc., 1981).

Robert J. Donovan, *Eisenhower: The Inside Story* (New York, Harper & Row, 1956).

Dwight D. Eisenhower, *The White House Years: Mandate for Change, 1953-1956* (Garden City, New York, Doubleday & Co., 1963).

E. Howard Hunt, *Undercover: Memoirs of an American Secret Agent* (New York, Berkley Publishing, 1974).

Richard H. Immerman, *The CIA in Guatemala: The Foreign Policy of Intervention* (Austin, Texas, University of Texas Press, 1982).

———, "Guatemala as Cold War History," *Political Science Quarterly*, Volume 95 (Winter 1980–1981), pages 629–653.

Lester D. Langley, *The United States and the Caribbean, 1900–1970* (Athens, Georgia, University of Georgia Press, 1980).

Herbert S. Parmet, *Eisenhower and the American Crusades* (New York, Macmillan, 1972).

David A. Phillips, *Nightwatch: Twenty Years of Peculiar Service* (New York, Atheneum, 1977).

Stephen Schlesinger and Stephen Kinzer, *Bitter Fruit: The Untold Story of the American Coup in Guatemala* (Garden City, New York, Doubleday & Co., 1982).

Jose M. Aybar de Soto, *Dependency and Intervention: The Case of Guatemala in 1954* (Boulder, Colorado, Westview Press, 1978).

U.S. Congress, *Congressional Record*, 1952–1954.

———, House, Committee on Foreign Affairs, *Selected Executive Session Hearings of the Committee, 1951–1956: The Middle East, Africa, and Inter-American Affairs*, Historical Series, Vol. XVI (Washington, Government Printing Office, 1980).

———, House, Select Committee on Communist Aggression, *Report of the Subcommittee to Investigate Communist Aggression in Latin America*, 83d Congress, 2d session (Washington, Government Printing Office, 1954).

———, House, Select Committee on Communist Aggression, Subcommittee on Latin America, *Ninth Interim Report of Hearings: Communist Aggression in Latin America*, 83d Congress, 2d session (Washington, Government Printing Office, 1954).

———, Senate, Committee on Foreign Relations, *Executive Sessions of the Senate Foreign Relations Committee*, Historical Series, Vol. VI, 83d Congress, 2d session (Washington, Government Printing Office, 1977).

U.S. Department of State, *American Foreign Policy, 1950–1955: Basic Documents* (Washington, Government Printing Office, 1957).

———, *A Case History of Communist Penetration: Guatemala*, Department of State Publication 6465 (Washington, Government Printing Office, 1957).

———, *Bulletin*, 1952–1954.

———, *Intervention of International Communism in Guatemala*, Department of State Publication 5556 (Washington, Government Printing Office, 1954).

———, *United States and Panama* (Washington, Department of State, 1952).

U.S. President, *Public Papers of the Presidents of the United States: Harry S. Truman, 1952–1953* (Washington, Government Printing Office, 1966).

———, *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1953* (Washington, Government Printing Office, 1960).

———, *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954* (Washington, Government Printing Office, 1960).

UNITED STATES GENERAL POLICY WITH RESPECT TO LATIN AMERICA

Editorial Note

On February 3, 1953, the Senior Staff of the National Security Council (NSC) received from the Department of State a paper drafted in the Bureau of Inter-American Affairs, titled "U.S. Policy With Respect to Latin America," dated January 24, 1953, not printed. At its meeting on February 18, the Senior Staff directed the NSC's staff assistants to complete a coordinated draft statement of policy concerning United States objectives toward Latin America, based on the paper submitted by the Department of State. The subsequent draft statement of policy, dated February 19, 1953, not printed, was considered at the Senior Staff meeting on February 23, where a decision was taken to request the Department of State to prepare a revised draft. On March 4, the Senior Staff reviewed the revised draft and approved its submission, as amended, to the National Security Council for consideration as NSC 144, a report on "United States Objectives and Courses of Action With Respect to Latin America." Records of the NSC Senior Staff meetings are contained in S/P–NSC files, lot 62 D 1. Additional documentation relating to the preparation of NSC 144 is contained in PPS files, lot 64 D 563 and S/P–NSC files, lot 61 D 167.

The Senior Staff constituted the principal NSC unit for the formulation and transmission of policy recommendations to the Council. It was comprised of representatives at the Assistant Secretary level from the Departments of State, Defense, and Treasury, the Central Intelligence Agency, the Mutual Security Agency, the National Security Resources Board, the Joint Chiefs of Staff, and the Office of Defense Mobilization. The Executive Secretary of the NSC served as chairman of the Senior Staff, which met approximately twice a week.

In March 1953, the Senior Staff was reorganized as the National Security Council Planning Board. The Planning Board retained the basic functions of the Senior Staff, but its personnel underwent certain changes. It was chaired by the Special Assistant to the President, and its membership was comprised of representatives from the Departments of State, Treasury, and Defense, the Office of Defense Mobilization, and the Office of the Special Assistant to the President on Disarmament. Additional documentation concerning the organizational structure of the NSC is printed in volume II.

Eisenhower Library, papers as President, Whitman file, NSC records

Memorandum of Discussion at the 137th Meeting of the National Security Council on Wednesday, March 18, 1953 [1]

TOP SECRET EYES ONLY

Present at the 137th meeting of the Council were the President of the United States, presiding; the Vice President of the United States; the Under Secretary of State; the Secretary of Defense, and the Director for Mutual Security. Also present were the Secretary of the Treasury; the Secretary of Commerce (for Items 1 and 2); the Director, Bureau of the Budget; the Chairman, Joint Chiefs of Staff; the Administrative Assistant to the President for National Security Matters; the Special Assistant to the President for Cold War Operations; the Military Liaison Officer; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC. Various staff members from the Department of State, the Department of Defense, the Department of Commerce, DMS, MSA, and CIA, were also present to assist their principals during the discussion of Items 1 and 10.

There follows a general account of the main positions taken and the chief points made at this meeting.

[Here follows discussion concerning United States economic policies which might affect the war potential of the Soviet bloc, civil aviation policy toward the USSR and its satellites, NATO strategy, and other matters not directly related to United States policy with respect to Latin America.]

9. *United States objectives and courses of action with respect to Latin America* (NSC 144 [2] and Annex to NSC 144 [3])

In introducing this report, Mr. Cutler read the objectives and summarized the courses of action set forth. He then suggested that, beginning with the Under Secretary of State,[4] the members of the Council describe their reactions to this proposed policy.

Secretary Smith said that the paper had been prepared in some haste and represented a shotgun approach. It was, of course, very general, but would be followed by other reports dealing with specific countries which represented problems with regard to United States security interests.

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[1] This memorandum was drawn up by S. Everett Gleason, the Deputy Executive Secretary of the NSC, on Mar. 19.

[2] The text of NSC 144, dated Mar. 4, 1953, is identical to that of NSC 144/1, dated Mar. 18, 1953, printed *infra*, with the exception of the changes adopted as a result of this meeting.

[3] The referenced annex to NSC 144 is an NSC Staff Study, dated Mar. 6, 1953, not printed, which contains a general discussion of the basic considerations affecting U.S. relations with Latin America, alternate lines of policy which the United States might pursue toward Latin America, and the courses of action recommended in NSC 144. A copy of the Staff Study is contained in S/S–NSC files, lot 63 D 351.

[4] Walter B. Smith.

Turning then to the question of the costs of the programs set forth in the report, Secretary Smith said that he would not suffer great qualms if the $8 million budgeted for the Inter-American Highway were ultimately to be cut in half. Simply as a matter of tactics, however, Secretary Smith thought it would be wise if Congress did the cutting. As regards the Rama Road, he thought a cut inadvisable, and that every effort should be made to prevent any reduction of the proposed outlay of $25 million for economic assistance [5] to Latin America in Fiscal Year 1954.

Secretary Smith also adverted briefly to plans in the State Department for stepping up visits of distinguished American citizens to the various Latin American republics.

Mr. Cutler interrupted to state that the President had been extremely pleased with the present report and was going to use some portions of it as the basis for his forthcoming Pan American Day speech.[6]

In commentary on this point, Secretary Smith said that he was sure that the Council as a whole was aware of the heavy psychological significance of any policy and program for Latin America.

General Bradley commented next on the military aspects of the policy statement. He noted that it involved no changes in the objectives set forth in the policy which it superseded, viz., NSC 56/2.[7] As regarded military courses of action, the new paper omitted reference to accomplishments already recorded, but added three new items.

Asked for his views, Governor Stassen said that while on the whole he was pleased with the report, it failed to take account with sufficient force of one point that he felt to be of very great importance. It did not reflect the need for Latin American capitalists and business men to provide better treatment for their workers and to take a more progressive and responsible role in the development of the economies of their countries. He therefore suggested the insertion of a new paragraph which would cover this point.

Secondly, Governor Stassen said he felt that greater emphasis might likewise be placed on the problem of Latin American treatment of United States capital and investors. While perhaps less important than his first suggestion, a slight revision would cover this second point.

Secretary Wilson noted his concern to keep the Colombian battalion in service in Korea, and believed that the paper should cover the problem of compensation by the Colombian Government to the United States for services rendered in support of this battalion.[8]

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[5] For documentation relating to this subject, see pp. 186 ff.

[6] For text of President Eisenhower's address delivered at the Pan American Union in Washington, Apr. 12, 1953, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1953* (Washington, 1960), pp. 563–564.

[7] NSC 56/2, a report titled "United States Policy Toward Inter-American Military Collaboration," dated May 18, 1950, and approved by President Truman on the following day, is printed in *Foreign Relations*, 1950, vol. I, p. 628.

Mr. Cutler assured Secretary Wilson that the staff was aware of this problem and that it would be taken up in the forthcoming policy statement on Korea[9] as applying not only to Colombia but to other countries which had not paid the United States what was due it for logistic support of their forces.

It then became Secretary Humphrey's turn to comment on the paper. He said that the Council would note the inclusion of the clause setting forth the standard Treasury position that policy statements such as this should not be given final approval until the costs of carrying out the proposed program in Latin America had been scrutinized in relationship to priorities in other areas. All the other major areas must be gone into, said the Secretary, before we finally go ahead on this or any other policy. Secretary Humphrey informed the Council that it had already proved necessary for the Export–Import Bank to advance $300 million to Brazil in order to enable it to pay for materials which it had purchased from private interests in the United States.[10] This was a case, and a not very edifying one, of straight overbuying by the Brazilians. Unless something could be done to stop it, Secretary Humphrey warned, it would set the pattern for further expenditures and further requests for loans in the future.

In confirmation of these remarks, Secretary Smith added that the State Department expected the Brazilians to come back very shortly with another request on the Export–Import Bank, this time for $400 million.

Secretary Humphrey said that this sort of transaction obviously needed to be much more carefully policed by this Government in the future. It was already too late when he got a chance to acquaint himself with this most recent transaction involving the $300 million. These matters had very serious implications for the future, and it would be necessary for us to cut off in the near future.

Secretary Smith expressed general agreement with these views.

Secretary Humphrey said that he had one final suggestion to make with regard to United States relations with the Latin American states, particularly in the economic sphere. He felt sure that if we could find a few first-rate business men and send them as our ambassadors to the key Latin American nations, it would do far more good than any amount of money we could dole out.

The President expressed general sympathy with this idea, and Secretary Weeks added that from his own experience as a private business man in Latin America, the efforts of private enterprise needed to be backed up much more strongly than in the past by the Department of State.

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[8] For documentation on this subject, see pp. 769 ff.

[9] Apparent reference to NSC 170/1, a report on "U.S. Objectives and Courses of Action in Korea," dated Nov. 20, 1953, and approved by President Eisenhower on the same date; it is printed in volume xv, Part 2.

[10] Regarding this loan, see Mr. Mann's memorandum, Feb. 20, 1953, p. 606.

This subject, said Secretary Humphrey, brought in the question of tax incentives which formed part of the present report. He felt that tax incentives came logically after and not before you had achieved real stability of American investment. Tax incentives would never induce American investors to invest in Latin America until there was far greater assurance that the investment was reasonably safe.

With this the President expressed hearty agreement, and noted that he had "jumped" the Mexican Ambassador[11] recently on this very point. The Ambassador had replied that the Mexican Constitution itself guaranteed compensation for the expropriation of foreign investments, and that his country was guiltless.

Secretary Smith said that he felt that our people interested in Latin America should go after management contracts instead of following the traditional approach to investment in Latin America. He felt sure that this was a more effective way of doing business profitably in Latin America without giving rise to the problems which so often resulted in nationalization.

Secretary Humphrey expressed some skepticism of this approach, and reverted to his point that the way to get the job done was to send business men as ambassadors to the other American republics.

The National Security Council:[12]

a. Adopted the statement of policy contained in NSC 144 subject to the following changes:

> *Paragraph 5–d:* Change the second sentence[13] to read:
>
> "This does not preclude multilateral action through the inter-American system. . . ."
>
> *Paragraph 7:* Add a new sub-paragraph *f,* reading:
>
> "*f.* Undertaking a thorough study of the means by which we can assist Latin American capital to play a more vigorous and responsible role in economic development of the area."
>
> *Paragraph 12:* Change the first sentence[14] to read:
>
> "In support of the course of action in paragraph 11, the United States should provide military assistance to Latin America consist-

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[11] Rafael de la Colina.

[12] Paragraphs *a* and *b* constitute NSC Action No. 746.

[13] The text of the referenced sentence reads as follows:

"This does not preclude multilateral action through the inter-American system or unilateral action if necessary to protect overriding United States security interests."

[14] The text of the referenced sentence reads as follows:

"In support of the course of action in paragraph 11, the United States should provide military assistance to Latin America consistent with the agreed plans of the Inter-American Defense Board and bi-lateral military agreements made thereunder."

ent with the agreed plans of the Inter-American Defense Board and other bilateral or multilateral military agreements to which the United States is a party." [15]

b. Noted the President's approval of NSC 144 as amended, and his statement that this approval did not constitute an endorsement of any specific program of military and economic assistance for Latin America, which will be subject to review in the light of (1) the priority of financing of present and proposed programs for Latin America in relation to programs for other foreign areas and to programs for domestic security, and (2) the overall objective of achieving a balanced Federal budget.

Note: NSC 144 as amended subsequently circulated as NSC 144/1.

[Here follows discussion relating to review of basic national security policies (item 10), which is printed with the documentation concerning the mutual security program in volume I, and NSC status of projects.]

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[15] For documentation relating to U.S. policy regarding hemisphere defense, provision of armaments, and military assistance to other American republics, see pp. 116 ff.

S/S-NSC files, lot 63 D 351, NSC 144 series

Statement of Policy by the National Security Council [1]

TOP SECRET
NSC 144/1

WASHINGTON, March 18, 1953.

UNITED STATES OBJECTIVES AND COURSES OF ACTION WITH RESPECT TO LATIN AMERICA

GENERAL CONSIDERATIONS

1. There is a trend in Latin America toward nationalistic regimes maintained in large part by appeals to the masses of the population. Concurrently, there is an increasing popular demand for immediate improvement in the low living standards of the masses, with the result that most Latin American governments are under intense domestic political pressures to increase production and to diversify their economies.

2. A realistic and constructive approach to this need which recognizes the importance of bettering conditions for the general population, is essential to arrest the drift in the area toward radical and nationalistic regimes. The growth of nationalism is facilitated by historic anti-U.S. prejudices and exploited by Communists.

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[1] The Executive Secretary of the NSC, James S. Lay, Jr., in a note to the NSC dated Mar. 18, 1953, not printed, referred to the Council's action on NSC 144 (NSC Action No. 746) and the President's approval that date of NSC 144 as amended, and transmitted the statement of policy as NSC 144/1 to all appropriate executive departments and agencies.

3. The limited purpose of this paper is to define our objectives and courses of action concerning this and other important problems common to the area; policies toward particular country situations, such as those in Argentina and Guatemala, are left for subsequent papers.

OBJECTIVES

4. The objectives of the United States with respect to Latin America area:

a. Hemisphere solidarity in support of our world policies, particularly in the UN and other international organizations.

b. An orderly political and economic development in Latin America so that the states in the area will be more effective members of the hemisphere system and increasingly important participants in the economic and political affairs of the free world.

c. The safeguarding of the hemisphere, including sea and air approaches, by individual and collective defense measures against external aggression through the development of indigenous military forces and local bases necessary for hemisphere defense.

d. The reduction and elimination of the menace of internal Communist or other anti-U.S. subversion.

e. Adequate production in Latin America of, and access by the United States to, raw materials essential to U.S. security.

f. Support by Latin America of collective action in defense of other areas of the free world.

g. The ultimate standardization of Latin American military organization, training, doctrine and equipment along U.S. lines.

COURSES OF ACTION

Political

5. The United States should achieve a greater degree of hemisphere solidarity by:

a. A greater utilization of the Organization of American States as a means of achieving our objectives, which will avoid the appearance of unilateral action and identify our interests with those of the other American states.

b. Consulting with the Latin American states, whenever possible, before taking actions which will affect them or for which we wish their support, explaining as fully as security permits the reasons for our decisions and actions.

c. Evidencing greater consideration of Latin American problems at the highest levels of government by according sympathetic attention to representatives of Latin America, by exercising care in public statements relating to the area, and through such methods as visits by high government officials and distinguished private citizens to Latin American states.

d. Refraining from overt unilateral intervention in the internal political affairs of the other American states, in accordance with existing treaty obligations. This does not preclude multilateral action through the inter-American system. . . .

e. In determining the extent of U.S. assistance and support to particular American states, taking into consideration their willingness and ability to cooperate with the United States in achieving common objectives.

f. Assisting through the Organization of American States, or by such other means as may be available, those American states which are resisting pressures from their neighbors, whenever such pressures are inimical to U.S. interests and the inter-American system.

g. Encouraging the incorporation of Canada into the Organization of American States.

6. The United States should also:

a. Encourage through consultation, assistance and other available means individual and collective action against internal subversive activities by communists and other anti-U.S. elements.

b. Encourage the development of the regional Inter-American Organization of Workers (ORIT) and the development of responsible, democratic labor leadership in Latin America capable of taking the initiative away from communists and other anti-U.S. inter-American labor movements.

c. Encourage Latin American governments to continue to prevent direct shipments of strategic materials to the Soviet bloc and to adopt an import certificate and delivery verification system to facilitate the prevention of indirect shipments.

Economic

7. The United States should seek to assist in the economic development of Latin America by:

a. Encouraging Latin American governments to recognize that the bulk of the capital required for their economic development can best be supplied by private enterprise and that their own self-interest requires the creation of a climate which will attract private investment.

b. Continuing the present level of International Bank loans and Export–Import Bank loans and, where appropriate, accelerating and increasing them, as a necessary supplement to foreign private investment.

c. Continuing a limited economic grant program in Latin America, including such projects as the Inter-American Highway and the Rama Road.

d. Making it easy for Latin American countries to sell their products to us, through simplification of customs procedures and reduction of trade barriers under the Reciprocal Trade Agreements program.

e. Continuing the program of technical assistance to the area, but designing individual projects within the capability of the particular country concerned.

f. Undertaking a thorough study of the means by which we can assist Latin American capital to play a more vigorous and responsible role in economic development of the area.

8. The United States should encourage the institution of necessary Latin American government fiscal, budgetary and other measures which are indispensable to economic progress in the area through utili-

zation of the International Monetary Fund, the International Bank, the Export-Import Bank, and other appropriate means.

Information and Related Activities

9. The U.S. Information and Cultural Programs for Latin American states should be specifically directed to the problems and psychology of specific states in the area, with the objective of alerting them to the dangers of Soviet imperialism and communist and other anti-U.S. subversion, and convincing them that their own self-interest requires an orientation of Latin American policies to our objectives.

10. . . .

Military

11. The United States should encourage acceptance of the concept that each of the Latin American states is responsible for maximizing its contribution to:

a. The internal security of its own territory.

b. The defense of its own territory, including land communication, coastal waters, ports and approaches thereto, bases located within its area of responsibility and air lanes of communication associated therewith.

c. The allied defense effort, including participation in combined operations within the hemisphere and support of collective actions in other theaters by forces beyond the requirements of hemisphere security.

12. In support of the course of action in paragraph 11, the United States should provide military assistance to Latin America consistent with the agreed plans of the Inter-American Defense Board and other bilateral or multilateral military agreements to which the United States is a party. U.S. military assistance should be designed to reduce to a minimum the diversion of U.S. forces for the maintenance of hemisphere security; and in determining the type of military assistance to be provided each nation, consideration should be given to its role in hemisphere defense.

13. The United States should assume primary responsibility for military operations in the Atlantic and Pacific Oceans and the Caribbean Sea, including sea and air approaches to the Panama Canal, and at the appropriate time should seek from other American states acceptance of U.S. military control of the defense of these areas.

14. To the extent that military bases other than U.S. bases in Latin America are required to further joint defense efforts, the United States should technically guide and assist the Latin American countries in their development and maintenance and seek agreements providing for their reciprocal use, rights of air transit and technical stops, and availability for common defense purposes.

15. The United States should take political, economic or military action, as appropriate, to insure the continued availability of U.S. bases in Latin America.

16. Where necessary the United States should assist in the protection of sources and processing facilities of strategic materials and land transportation related thereto. However, each of the Latin American countries should organize its own civil defense.

17. In providing military aid and seeking military commitments the United States should not encourage Latin American nations to contribute to the military effort to an extent which would jeopardize their economic stability.

18. In addition, the United States should:

a. Continue the planning of the Inter-American Defense Board and the Military Commissions on which we are jointly members with Brazil and Mexico.

b. Continue and establish where appropriate, military training missions in Latin American nations.

c. Continue to provide training in the United States for selected Latin American military personnel.

d. Seek a wider participation by Latin America in the UN action in Korea where the type of participation will improve UN capabilities.*

e. Seek the ultimate standardization along U.S. lines of the organization, training, doctrine and equipment of Latin American armed forces.

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*The general problem of reimbursement for U.S. logistical support of Latin American forces participating in the war in Korea will be considered in the forthcoming report on U.S. policy relating to Korea. This problem is currently most acute in the case of Colombia. [Footnote in the source text.]

S/S–NSC files, lot 63 D 351, NSC 144 series

Memorandum by the Under Secretary of State (Smith) to the Executive Secretary of the National Security Council (Lay) [1]

TOP SECRET [WASHINGTON,] July 23, 1953.

Subject: First Progress Report on NSC 144/1, United States Objectives and Courses of Action with Respect to Latin America.

NSC 144/1 was approved as governmental policy on March 18, 1953. It is requested that this progress report as of July 15, 1953 be circulated to the members of the Council for their information.

1. *Political*

Utilization of the Organization of American States (OAS): Active participation in the normal activities of the OAS and its organs and agencies continued throughout the period. Steps were taken to insure that a report[2] prepared by the Pan American Union relating to the maintenance of internal security against communist or other subversion might be utilized effectively to assist in the attainment of United States objectives. On the other hand, there were two instances in which the United States used its influence to forestall recourse to the OAS when such recourse was unsuitable to the situation and in all likelihood would have proved to be divisive, thereby weakening the inter-American system. One of these was the Deception Island (Antarctica) incident in which a British naval vessel demolished Argentine and Chilean installations on the Island and removed Argentine personnel from the area. When it became apparent that either Argentina or Chile, or both, were giving serious consideration to invoking the Inter-American Treaty of Reciprocal Assistance (Rio Treaty),[3] the United States encouraged settlement of the controversy by direct negotiation or, failing in this, by recourse to instrumentalities in which all parties could be heard. To date the matter has remained in bilateral diplomatic channels. The other instance relates to a border incident between Peru and Ecuador. As one of the four guarantors of the 1942 Boundary Protocol,[4] the United States has joined the other three countries (Argentina, Brazil and Chile) in establishing a commission to investigate the incident. We have also consulted with the Governments concerned and with the other Guarantors on the creation of a Peru–Ecuador group to verify the factual situation regarding allegations of each country of provocative actions on the part of the other.

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[1] A title sheet and summary are not printed. Drafted by Robert M. Sayre, William G. Bowdler, and Jean H. Mulliken; cleared with the Offices of South American Affairs, Middle American Affairs, and Regional American Affairs, the Bureau of Economic Affairs, the Office of the Deputy Under Secretary of State, and the Policy Planning Staff.

Consultation with Latin American Countries: The United States took steps to inform or consult with the Latin American States on two important matters relating to the signing of an armistice in Korea.[5] The Government of Colombia has been invited to join the United States in informing the Foreign Ministers of the Latin American governments of the content and purpose of the "Joint Policy Declaration"[6] which the United Nations members with forces in Korea (Colombia is the only Latin American country with forces in Korea) are planning to make following the signing of the armistice. To this end each United States Embassy has been instructed to coordinate and make a joint approach to the Foreign Minister with the Colombian Ambassador shortly before the release of the Declaration.

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[2] *Strengthening of Internal Security* (Washington, 1953); a copy is in Department of State file 361.01/9–953.

[3] For text of the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948, see Department of State Treaties and Other International Acts Series (TIAS) No. 1838, or 62 Stat. (pt. 2) 1681.

[4] For text of the protocol between Ecuador and Peru regarding peace, friendship, and boundaries, signed at Rio de Janeiro, Jan. 29, 1942 (signed also by the representatives of the United States, Argentina, Brazil, and Chile as guarantors), see Department of State Executive Agreement Series (EAS) No. 288, or 56 Stat. (pt. 2) 1818.

[5] For text of the Armistice Agreement between the UN Commander in Korea and the Commanders of Communist Forces in Korea, signed in Korea, July 27, 1953, see TIAS No. 2782, or *United States Treaties and Other International Agreements* (UST), vol. 4, p. 234. Documentation relating to the signing of the armistice is printed in volume XV.

[6] For text of the referenced declaration, signed in Washington, July 27, 1953, and released by the United Nations on Aug. 7, see Department of State *Bulletin*, Aug. 24, 1953, p. 247.

Pursuant to instructions from the President, the Latin American governments are being consulted with respect to their views on the question of Chinese representation in the United Nations[7] following a Korean armistice. The United States Embassies have been instructed in making the approach, to explain the reasons for the stand of the United States against Chinese Communist representation as fully as is considered advisable in the light of the circumstances of each government. On the basis of reports received to date, it is evident that the United States will be able to count on substantial Latin American support.

Following the Army *coup d'etat* in Colombia on June 13,[8] in which Lt. General Gustavo Rojas Pinilla ousted President Laureano Gomez, the United States exchanged information with all the other American republics, except Guatemala, before proceeding to recognize the new regime. The consultation revealed that the other American Republics had substantially the same information regarding the Rojas Government as the United States, i.e., that it appeared to be in effective control of the governmental machinery and territory and that the strong statements made by General Rojas indicated a clear intention to carry out Colombia's international obligations. The basic criteria of the traditional recognition policy with regard to Latin America having been met the United States recognized the Rojas Government on June 18, an action which, consistent with Resolution XXXV[9] of the Ninth Inter-American Conference at Bogotá in 1948, did not imply a judgment on the internal policies of the government concerned. Notice of this action was given to all the American Republics in advance.

High Level Consideration of Latin American Problems: The appearance and message[10] of the President before the Council of the OAS commemorating Pan American Day was the outstanding instance during the period of sympathetic attention to Latin American representatives. In his message the President stated his desire that the Government of the United States take careful stock of the economic and social conditions now prevailing throughout the hemisphere and of the efforts being pressed to bring a better life to all of the peoples of the

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[7] For documentation on this subject, see vol. III, p. 620 ff.

[8] Regarding the change of government in Colombia and recognition of the new regime by the United States, see the editorial note and the memorandum by Cabot, pp. 802 and 803.

[9] For text of the referenced resolution, adopted by the Ninth International Conference of American States, which convened in Bogotá, Mar. 30–May 2, 1948, see *Ninth International Conference of American States: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 3263, Washington, 1948), p. 271.

[10] Reference is to President Eisenhower's speech of Apr. 12, 1953, cited in footnote 6, p. 3.

Americas. This assessment is now under way with visits by the Assistant Secretary for Inter-American Affairs[11] to Mexico, the Central American and Caribbean Republics and Panama,[12] and by Dr. Milton Eisenhower to the countries in South America.[13] The Secretary of State in an address[14] before the Council of the OAS on March 23 stressed the purpose of the new Administration to pursue the development of mutual relations of trust and respect with the other American Republics with increased vigor and effectiveness. A further demonstration that Latin American problems are receiving consideration at the highest levels of government, when such attention is required, is evidenced by the announcement from the White House on June 22 that the President, the Secretaries of State and Treasury, and other high officials had discussed the Bolivian problem. The President's unanticipated appearance at Mr. Cabot's dinner for Dr. Milton Eisenhower attended by the Ambassadors of all of the South American countries, his invitation to the daughter of President Vargas and her husband to come to Washington where they were entertained at the White House, his invitation to the President of Mexico[15] to participate in the dedication of Falcon Dam[16] on the Rio Grande River and the award of the Legion of Merit to the President of Peru[17] constitute gestures which have considerable appeal to Latin American sensibilities.

High level attention to the Latin American military include the visits to the United States of the Minister of Defense of Brazil[18] in March and the Commander in Chief of the Paraguayan Armed Forces[19] in June at the invitation of the Secretary of the Army[20] and the visits in May of Chief of Staff of the United States Army[21] to Mexico, Panama and Colombia and the Chief of Staff of the United States Air Force[22] to Mexico, Costa Rica, Nicaragua, Panama, Brazil, Peru and Colombia and in June and July the Visit of the Undersecretary of the Army [23] to Haiti, Panama, Colombia and Venezuela.

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[11] John M. Cabot.

[12] Assistant Secretary Cabot visited nine countries during the period Apr. 6–May 3, 1953 (Colombia, Cuba, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama); pertinent documents are in file 110.15 CA.

[13] At the request of President Eisenhower, Dr. Eisenhower visited the ten countries in South America between June 23 and July 29, 1953, for the purpose of conducting a fact-finding mission; see the editorial note, p. 196.

[14] For the text of the referenced address, see Department of State *Bulletin*, Mar. 30, 1953, pp. 459–460.

[15] Adolfo Ruiz Cortines.

[16] The dedication of Falcón Dam and Power Plant took place on Oct. 19, 1953; for text of President Eisenhower's address delivered at the dedication ceremony, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1953*, pp. 692–696 or Department of State *Bulletin*, Nov. 2, 1953, pp. 579–580.

[17] President Manuel A. Odría of Peru received the Legion of Merit award in Lima, June 25, 1953; pertinent documents are in file 090.1123.

[18] Gen. Cyro de Espíritu Santo Cardoso.

[19] Gen. Alfredo Stroessner.

[20] Robert T. Stevens.

[21] Gen. J. Lawton Collins; documents pertaining to General Collins' visit, which took place May 4–14, 1953, are in file 711.5820.

[22] Gen. Hoyt S. Vandenberg, who retired on June 30, 1953.

Assistance to Central American Countries in Resisting Pressures from Guatemala: Action has been taken to give moral support to Costa Rica, Nicaragua, Honduras and El Salvador and military assistance to the latter three to resist pressures from Guatemala. On April 4, Guatemala withdrew from the Organization of Central American States (ODECA) [24] charging the other Central American governments with aggressive intent and entering into military and civil alliances against Guatemala. This action appears to have been taken in response to efforts on the part of El Salvador to have ODECA discuss and agree upon measures to combat communism. As such, it constitutes a victory for communist elements in Guatemala who have consistently opposed ODECA, a victory which would have been complete if as a result of Guatemalan withdrawal the Organization were to collapse. At their initiative, and considering that the continuation of ODECA is desirable as a first step toward possible later consideration in the OAS of the communist problem in Guatemala, the United States gave its moral support to the efforts of the four other Central American States to maintain the Organization and specifically their plans to take action against the infiltration of communism in the area. In addition to this psychological backing, consideration is being given to providing limited military assistance to bolster further their resistance to Guatemalan pressures. The extent of the military assistance is described below.

Control of Subversive Activities: The action of the other American Republics against internal subversive activities during the period under review reveals in general the continued vacillating and superficial nature of Latin American resistance to the communist conspiracy. The following steps of a more than routine importance have been taken to reverse this trend.

Requests received from Venezuela and Brazil served to underline the need for more adequate ways to satisfy the desire of Latin American governments for United States Government training in police methods and anti-subversion techniques. In the absence of any such Federal agency training program available to foreign nations, the attention of interested Latin American governments has been called on various occasions during the past year to the facilities of a private United States police investigative organization, whose personnel have had official experience, and a follow-up is being made to assure that these facilities are being used as widely as possible.

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[23] Earl D. Johnson.

[24] See footnote 3, p. 1069.

As a result of the increase in external subversive activities of Guatemalan communist forces and the heightening of political tensions in neighboring countries. . . .

Labor: In cooperation with the Inter-American Regional Organization of Workers (ORIT), the western hemisphere branch of the International Confederation of Free Trade Unions (ICFTU) a third group of prospective Latin American labor leaders, making a total of thirty labor leaders to date, has been trained at the University of Puerto Rico. However, the new leaders of ORIT have shown sensitivity to formal working relationships with any government and have decided not to continue the school. Consequently, it will be continued by the United States Government in cooperation with United States labor organizations.

The program of training prospective Latin American labor leaders, of bringing more mature labor leaders to this country for travel and orientation, and the approach to Latin American labor through our Labor Attachés and labor officers abroad has begun to make a definite impression on the attitudes of Latin American labor.

Control of Shipments of Strategic Materials: No direct exports of strategic materials from Latin America to the Soviet bloc are known to have occurred during the second quarter of 1953. Continuing reports of trans-shipment of Chilean copper through European free ports prompted the presentation of a note to the Chilean Foreign Office on April 29,[25] again recommending institution of the Import Certificate and Delivery Verification system. There have also been reports, so far unsubstantiated, of trans-shipment of strategic materials of Mexican origin.

Embassy Buenos Aires was informed by the Foreign Minister,[26] prior to initiation of Argentine discussions with a Soviet trade mission, that no strategic materials would be offered for exchange.

Embassy La Paz is being kept currently informed by the Bolivian Government regarding trade agreement negotiations now in progress with Czechoslovakia.

With United States encouragement the Government of Costa Rica revoked the registry of two ships transmitting strategic materials to countries in the Soviet bloc.

2. *Economic*

Encouragement of Private Investment: Little further progress has been made in improving the climate for private investment in the Latin American countries, with the possible exception of Haiti and Bolivia. An investment guarantee agreement has been concluded with Haiti.[27]

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[25] Reference is to Embassy note 125, dated Apr. 29, 1953; a copy is enclosed with despatch 1213, from Santiago, dated Apr. 30, 1953, not printed. (460.259/4-3053)

[26] Jerónimo Remorino.

[27] For text of the exchange of notes constituting an agreement between the United States and Haiti relating to guaranties authorized by section 111(*b*) (3) of the Economic

Footnote continued on next page

Bolivia, which has heretofore followed a policy of developing its petroleum resources through a government monopoly, has signed an agreement permitting a private American firm to exploit two petroleum areas, and Bolivian officials state that they hope this agreement will serve as a prototype for others.

The Bolivian Government on June 10 agreed to an arrangement for payment of American claims arising out of nationalization of the tin mines[28] which should help to reassure private investors regarding the future treatment of foreign capital. With this indication of good faith on the part of the Government it will be possible to proceed with plans for stabilizing the Bolivian economy through a tin purchase program and expansion of the technical cooperation program.

The Chilean Government has failed to make any downward adjustment in the official price of Chilean copper to bring it in line with world market prices, thus precluding the American companies operating in Chile from competing in world markets, with resultant strain on their financial position. Expropriation by the Government of Guatemala of the major portion of the United Fruit Company's Tiquisate properties, under its agrarian reform law, marks further deterioration in the outlook for private captical in Guatemala.

United States Shipping and Aviation Interests in Latin America: The outlook for United States shipping lines operating to the east coast of Latin America has improved. Brazil has recently introduced legislation to cancel certain discriminations against United States shipping, such as exclusive berthing and warehousing privileges accorded the Brazilian line and a consular fee practice which diverted cargo to national flag vessels. On our part, legislation has been introduced which would permit the sale of twelve vessels to Brazil to improve its coastal transportation.[29] As regards the west coast, the United States has found it necessary to make representations to the Chilean Government with respect to its recent actions to divert commercial cargo to Chilean vessels.

A civil aviation agreement with Cuba,[30] which has been in process of negotiation for over a year, was concluded in June. It is anticipated

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Footnote continued from preceding page

Cooperation Act of 1948, as amended, signed at Washington, Mar. 13 and Apr. 2, 1953, and entered into force on the latter date, see TIAS No. 2818, or 4 UST (pt. 2) 1546.

The Economic Cooperation Act of 1948 is Title I of the Foreign Assistance Act of 1948 (Public Law 472), approved Apr. 3, 1948; for text, see 62 Stat. 137.

[28] For documentation on the nationalization of the Bolivian tin mines and the response of the United States, see pp. 485 ff.

[29] Reference is to Senate bill 2370, introduced July 13, 1953, which subsequently became "An act to authorize the sale of certain vessels to Brazil for use in the coastwise trade of Brazil" (Public Law 496), approved July 15, 1954; for text, see 68 Stat. 481.

[30] For text of the exchange of notes constituting an agreement to facilitate notification of private flights between the United States and Cuba, signed at Habana, Jan. 19 and Feb. 26, 1953, and entered into force on the latter date, see TIAS No. 2779 or 4 UST 210.

that a similar agreement[31] will be signed with Venezuela within the month.

International Bank and Export-Import Bank Loan Activities: Loans authorized by the International Bank for Reconstruction and Development (IBRD) and the Export-Import Bank of Washington during the second quarter of 1953 totaled $6,755,000 as compared with authorizations of $301,567,000 during the first quarter. Of the first quarter authorizations, $300 millions represented a single loan to Brazil for liquidation of its dollar commercial backlog.[32]

Brazil's dollar balance of payments situation deteriorated during the quarter, making it difficult to meet the conditions imposed under the terms of the loan. Nevertheless a second drawing of $60 millions against the loan was permitted in the light of assurances by the new Minister of Finance[33] of cooperation in adjusting the situation.

The fact that the Joint Brazil-United States Economic Development Commission, organized in 1951, is about to be terminated and that financing of its remaining program is to be considered on an individual project basis and will depend on Brazil's financial position, will tend to slow the rate of lending.

A loan of $120 millions for a copper project in Peru, $60 millions of which was to be covered by a certificate from the Office of Defense Mobilization, was considered by the Export-Import Bank. No final decision has been taken but the Office of Defense Mobilization decided on July 8 not to issue a certificate.[34]

Credits totaling approximately $80 millions are under active consideration by the two banks. They include a $20 million pulp-paper loan to Chile, $49 millions for four projects of the Joint Brazil-United States Economic Development Commission and $4 millions for airports in Ecuador. Negotiations on some of these loans have been protracted, and the political advantage which the United States might have expected to derive from them has been correspondingly reduced.

Technical Cooperation Program: Appropriations of $24.3 millions have been requested to continue the technical cooperation program in nineteen of the twenty Latin American republics during the fiscal year 1954. If approved, this will permit a 10% expansion in the technical cooperation program being administered by the Technical Cooperation Administration.

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[31] For text of the exchange of notes constituting an air transport agreement, signed at Caracas, Aug. 14, 1953, and entered into force Aug. 22, 1953, see TIAS No. 2813 or 4 UST 1493.

[32] Reference is to an Export-Import Bank loan to Brazil, approved Feb. 21, 1953; see Mr. Mann's memorandum, Feb. 20, 1953, p. 606.

[33] Oswaldo Aranha.

[34] On Nov. 4, 1954, the Export-Import Bank approved a loan not to exceed $100 million to the Southern Peru Copper Corporation for development of the Toquepala copper deposits in southern Peru; see footnote 4, p. 1534.

Grant-Aid for Highways in Central America: The Congress has tentatively agreed to appropriate $1 million for continuation of work on the Rama Road, which should be helpful in our relations with Nicaragua. The amount tentatively appropriated for the Inter-American Highway, however, was only $1 million, or 1/8th of the amount requested and previously authorized. The appropriation bill providing these amounts is now being considered by a Conference Committee.

United States Trade with Latin America: No progress can be recorded toward fulfillment of our objective of facilitating the sale of Latin American products in the United States with almost all efforts being expended in an effort to retain gains already made. Legislation introduced to increase restrictions on the importation of lead, zinc and residual fuel oil have given rise to widespread criticism of the United States in those countries which might be adversely affected by its passage, especially Mexico, Peru and Venezuela.

Fears regarding the future tariff policy of the United States were in no wise allayed by the fact that countervailing duties were imposed during the second quarter of 1953 on Uruguayan wool tops. This is the first instance in recent years of imposition of a countervailing duty to offset a subsidy arising out of multiple exchange rates.

Monetary Stabilization and Fiscal Reforms: On May 14 the Bolivian Government initiated a highly important program of monetary stabilization and reform of the foreign exchange system. This action was taken on the urging of the United States and in close consultation with the International Monetary Fund and the United Nations Technical Assistance Mission to Bolivia.

The International Monetary Fund, the Export-Import and International Banks and the Department of State both in Washington and in Rio de Janeiro have urged Brazil to undertake fiscal, budgetary and monetary reforms. A new Minister of Finance has been appointed whose statements are encouraging but whose program is not yet clearly established.

A preliminary report on the Consultation of the International Monetary Fund with Chile, urging fiscal reforms, was published in Chile. The Department of State has consistently pointed out to the Chilean Government the need for an almost complete overhaul of its fiscal and monetary system in order to cope successfully with its economic and trade problems. Chile's failure to take concrete steps to curb inflation has hampered that Government's efforts to obtain development loans.

The Stabilization Fund Agreement between the United States and Mexico was renewed with modifications on June 9[35] for a further period of 2½ years.

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[35] For information pertaining to the renewal of the referenced Stabilization Fund Agreement, see the Department of the Treasury press release, dated June 9, 1953, printed

3. *Information and Related Activities*

Tailoring Information Program to Latin America: Steps are being taken to direct the information program more sharply at individual countries or groups of countries in the region. In view of developments in Chile which have been detrimental to United States private firms operating in that country, a special information program has been undertaken in Chile with effective results. Efforts directed against the growth and dissemination of communist influence from Guatemala continued successfully. The deteriorating situation in Bolivia, and the blame improperly heaped on the United States as a result, was countered with factual information explaining the United States position but, failing political and economic action which would relieve the situation, the net result of information activities can not be expected to be particularly useful.

Efforts to convince Latin American countries of our interest in them and our determination to devote more attention to them were successfully advanced through information activities connected with (1) the visit of the Assistant Secretary of State for Inter-American Affairs to Mexico, the Caribbean and Central American Republics and Panama and (2) Dr. Milton Eisenhower's visit to the South American countries.

Action Against Communist Sponsored Meetings: Information activities resulted in almost completely discrediting the Communist sponsored Cultural Congress held in Santiago, Chile,[36] to which a great number of non-Communist leaders were invited. This Congress was intended to be a western hemisphere affair and was designed to attack alleged United States restrictions on cultural activities. Attendance was reduced largely to known communists and the Congress failed of its objective. Activities to discredit persons attending local Soviet-inspired "Peace" Congresses as well as European and other "Peace" Congresses continued successfully. An effective exposé contained in a prominent Mexico City daily of Soviet activities out of Mexico City was used to our advantage throughout Latin America.

Local Communist and Other Anti-United States Activities: Continued limited successes in combatting communism on a local level can be reported as well as considerable progress in improving the attitudes of leaders and the masses toward the United States. However, inability to provide propaganda directed at the local level continues to be a weakness of the program.

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in *Annual Report of the Secretary of the Treasury on the State of the Finances* (Washington, 1954), pp. 226–227.

[36] Reference is to the *Congreso Continental de la Cultura* (Continental Cultural Congress), held in Santiago, Apr. 26–May 1, 1953; a detailed report on the meeting and its aftermath is contained in despatch 1331, from Santiago, dated June 8, 1953, not printed. (398.44 SA/6–853)

Little effective work has been done to combat anti-United States propaganda and activities of the Peron Government of Argentina or that brand of ultra-nationalism in a number of Latin American countries which has strong anti-United States overtones. A plan is now in preparation for an information program to meet the problem of ultra-nationalist propaganda.

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4. *Military*

The following report on military relations with Latin America covers the period since the Seventh Progress Report on NSC 56/2, "United States Policy Toward Inter-American Military Collaboration" dated October 14, 1952.[37] The Seventh Progress Report was submitted as of September 25, 1952.

Military Assistance Program: A limited grant military assistance program for Latin America was initiated in early 1952 under the provisions of the Mutual Security Act of 1951.[38] The Congress has appropriated in fiscal years 1952 and 1953 a total of $89,835,750 for this program and is now considering an additional request for $15,000,000 for fiscal year 1954.

A bilateral Military Assistance Agreement with the Dominican Republic was signed in Washington on March 6 [39] and, after ratification by the Dominican Government, entered into force on June 10.

After a delay of over a year, the Military Assistance Agreement with Brazil,[40] which was vigorously attacked in Brazil by communist and extreme nationalists and until the second quarter of 1953 rather ineffectively supported by the Vargas Administration, was finally ratified and entered into force on May 19. The three most telling arguments (largely fallacious) used against the Agreement were: (1) it would be used as a pretext to send troops to Korea; (2) it was subject to unilateral amendment by the United States Congress, and is subordinate to United States statutes; (3) it was designed to give the United States control over Brazilian strategic materials and to obtain these materials at reduced prices.

Similar problems plagued the ratification of the Agreement with Uruguay [41] which, almost a year after it was signed, entered into force on

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[37] For text of the Seventh Progress Report on NSC 56/2, see p. 132.

[38] For text of the Mutual Security Act of 1951 (Public Law 165), approved Oct. 10, 1951, see 65 Stat. 373.

[39] For text of the referenced agreement, see TIAS No. 2777 or 4 UST 184.

[40] The referenced agreement was signed at Rio de Janeiro, Mar. 15, 1952, and entered into force, May 19, 1953; for text, see TIAS No. 2776, or 4 UST 170.

[41] For text of the Military Assistance Agreement between the United States and Uruguay, signed at Montevideo, June 30, 1952, and entered into force, June 11, 1953, see TIAS No. 2778 or 4 UST 197.

June 11. The secret Military Plan, which is an annex to the bilateral Military Assistance Agreement, has not yet been signed by Uruguay.

Prospects of an eventual military assistance agreement with Mexico became much dimmer during the period. Following press reports in the United States that the United States was going to insist that Mexico sign such an agreement, the Mexican press started a rather vigorous campaign against it. The visits of Generals Hoyt Vandenberg and J. Lawton Collins to Mexico in early May were seized upon as an indication that the United States intended to press for reopening of discussions for such an agreement and as a further opportunity to oppose it. This press campaign reached such proportions that it was considered necessary to instruct our Ambassador [42] in June to issue an official release or take other appropriate action denying any effort on our part to reopen discussions. When the joint Mexico–United States Defense Commission had its regular meeting in Mexico City in July the Mexican Minister of Defense [43] went out of his way to state to the press that "Mexico will not contribute a single man for fighting abroad."

Negotiations for funds to cover local administrative expenses of the program are in progress in Brazil, Cuba, the Dominican Republic and Uruguay and have been concluded with Chile, Colombia, Ecuador and Peru.

The Chief of the Military Assistance Advisory Group in Brazil has been instructed to enter into negotiations with Brazilian military authorities looking toward an increase in the number of Army units Brazil would agree to maintain for hemisphere defense.

As a result of increased tension in relations between El Salvador and Guatemala, a special mission to Washington from El Salvador discussed in February the purchase of a substantial quantity of military equipment from the United States and the inclusion of El Salvador in the military assistance program. The Department of the Army, under the reimbursable provisions of the Mutual Defense Assistance Act of 1949,[44] has offered to sell El Salvador the arms she desires.

Partly as a result of these discussions with Salvadoran officials preliminary consideration has been given to the possibility of developing defense tasks which would warrant the inclusion of El Salvador, Honduras and Nicaragua in the military assistance program.[45] The principal factors on which the proposal was based are that inclusion of the three countries would contribute to diminishing Communist influence in Central America, particularly in Guatemala, and increase the willingness and ability of Central American states to resist communist subversion and pressure. Moreover, the implicit emphasis on Guatemala's ineligibility to receive grant assistance might have the effect of establishing in Guatemala a political climate of benefit to anti-communist Guatemalan elements, especially elements in the Guatemalan armed forces. At the present state of consideration, it appears that adequate basis is offered for an approach to Nicaragua to include that country in the military assistance program with the possibility of renewed consideration, if developments in Central America should require, to determine the eligibility of El Salvador and Honduras.

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[42] Francis White.

[43] Gen. Matias Ramos Santos.

[44] Public Law 329, approved Oct. 6, 1949; for text, see 63 Stat. 714.

[45] For documentation on this subject, see pp. 144 ff.

Although Haiti has not been included in the program, that government has again expressed its desire to conclude an agreement.

The principal problems which have confronted the United States in carrying out the program are:

1. Delay in ratification of the Brazilian and Uruguayan Agreements;
2. Working out the necessary administrative and other details involved in carrying out a new military program;
3. Making available, within the existing status of Latin America as the lowest priority area, equipment and supplies to implement the program;
4. Counteracting propaganda attacks by communist and ultra-nationalist, who have made strong efforts to distort the true purpose of the program and prevent its implementation.

Although the first problem has been solved and measures have been taken to solve the second in the near future, it can be expected that the latter two problems will continue to persist in varying degrees as long as the program continues and the world situation remains as it is.

Military Staff Discussions with Venezuela: Consideration is being given to proposing to Venezuela the resumption of military staff talks on the defense of that country's oil fields which were discontinued in 1951.[46] These planning talks were discontinued at the request of Venezuela because of her dissatisfaction over the method of payment for and the delay in delivery of military equipment to that country under the reimbursable provisions of the Mutual Defense Assistance Act of 1949. Deliveries of equipment have improved but it is expected that the success of any staff discussions with Venezuela will depend primarily on the ability of the United States to satisfy at least a significant portion of Venezuela's requests for military equipment with reasonable promptness.

Protection of Sources of Strategic Materials: Responsibilities for assisting in the protection of sources and processing facilities of strategic materials in the Latin America area are at present defined by the provisions of NSC 29, "Security of Strategically Important Industrial Operations in Foreign Countries" [47] and action is guided by the determinations of the Special Inter-Agency Committee on Vulnerability of Foreign Sources of Strategically Important Materials. The Tenth Progress Report [48] on this subject was submitted to the National Security Council under date of June 8.

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[46] Documentation relating to the referenced military staff talks is printed in *Foreign Relations*, 1951, vol. II, pp. 1623 ff.

[47] NSC 29, dated Aug. 26, 1948, adopted by the NSC, Sept. 2, 1948, and approved by President Truman on Sept. 4, is not printed.

Base Requirements in the Galapagos Islands: Consideration is being given to the most effective means by which it can be assured that Ecuador will agree to make available to the United States base rights in the Galapagos Islands in the event of war or other extreme emergency.

Inter-American Defense Board: The United States has continued its participation and leadership in the Inter-American Defense Board.

Colombia became the ninth country to approve the General Military Plan for the Defense of the American Continent [49] which was prepared by the Board as a result of Resolution III [50] of the Fourth Meeting of Consultation of Ministers of Foreign Affairs and approved by the Board on November 15, 1951.

The significant omission from the list of countries approving either the Military Plan or the earlier Common Defense Scheme for the Defense of the American Continent [51] is Mexico which is understood to have suggested a number of revisions in the General Military Plan.

Joint Brazil–United States Military Commission: United States and Brazilian defense officials have formulated recommendations to their respective governments concerning the continued operation of the Joint Brazil–United States Military Commission in Rio de Janeiro and the Joint Brazil–United States Defense Commission in Washington under a proposed new permanent board on defense. In general, these recommendations would provide for: (a) an exchange of notes providing for the continued existence of these two Commissions under a new board and (b) a secret arrangement between the Brazilian Armed Forces General Staff and the United States Joint Chiefs of Staff which would define objectives, functions and procedures for the two existing Commissions and the new Board.

Joint Mexico–United States Defense Commission: The Commission continued its activities during the period. The Defense Planning Committee of the Commission held its third plenary meeting at New Orleans October 13–16, 1952. That meeting was followed by the 61st plenary meeting of the Commission in Washington on November 19, 1952 when the Commission approved the Mexico-United States Emergency Defense Plan which has since been approved by the two governments. The Defense Planning Committee held its fourth plenary session at Acapulco May 18–21 and the Commission held its 62nd plenary session in Mexico City July 6–8.

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[48] Not printed.

[49] For information on the referenced plan, approved by the Inter-American Defense Board, Nov. 15, 1951, see the editorial note, *Foreign Relations,* 1951, vol. II, p. 1028.

[50] For text of Resolution III, adopted by the Fourth Meeting of Consultation of Ministers of Foreign Affairs, which convened in Washington, Mar. 26–Apr. 7, 1951, see *Fourth Meeting of Consultation of Ministers of Foreign Affairs: Proceedings* (Washington, 1951), pp. 239–240.

[51] For information on the Common Defense Scheme, approved by the Inter-American Defense Board, Oct. 27, 1950, and by the Department of State, Jan. 15, 1951, see Secretary of Defense Marshall's letter to Secretary Acheson, Dec. 16, 1950, *Foreign Relations,* 1950, vol. I, p. 679.

Army, Navy and Air Force Missions: The United States Government has Army, Navy or Air Force Missions in all of the twenty Latin American republics except Argentina and the Dominican Republic. United States Naval Advisors are assigned to the Argentine Naval School by individual agreement with the Argentine Government but the United States does not have a Naval Mission Agreement with Argentina and does not maintain a mission there as such. At the beginning of the report period, the United States had Missions in the following countries:

Army Bolivia, Brazil, Colombia, Costa Rica, Cuba, Ecuador, Guatemala, Honduras, Panama, Paraguay, Peru and Venezuela

Navy Brazil, Chile, Colombia, Cuba, Ecuador, Haiti, Peru and Venezuela

Air Force Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Paraguay, Peru, Uruguay and Venezuela

An Air Force Mission was inaugurated in Nicaragua on April 15.[52] An Army Mission Agreement was signed with El Salvador on May 21.[53] This Agreement replaced a previous Agreement [54] which provided for the assignment of a United States Army officer as director of the Salvadoran military school but which was terminated on January 13 when our officer was withdrawn and El Salvador appointed one of its own officers as director the school. Nicaragua has requested that an Army Mission be assigned to that country.

Training in United States Service Schools: Students from Latin American countries continued to receive training during the period at Service schools in the Canal Zone and in the United States.

Reduction of Attachés in Latin America: Reductions in Attaché offices in Latin America leave the United States with no resident service attaché in Bolivia, Haiti and Paraguay. While assignment of attachés from neighboring countries to serve also in these countries may meet the intelligence requirements of the Service Departments, the reduction has hurt the national pride of these countries and is taken by them as an indication of the lack of importance attached to them by the United States.

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[52] An agreement providing for the establishment of a U.S. Air Force mission in Nicaragua was signed at Managua, Nov. 19, 1952, and entered into force on the same date; for text, see TIAS No. 2683 or 3 UST (pt. 4) 5027.

[53] For text of the agreement providing for the establishment of U.S. Army mission in El Salvador, signed at San Salvador, May 21, 1953, and entered into force on the same date, see TIAS No. 2825 or 4 UST (pt. 2) 1579.

[54] For text of the referenced agreement, signed at San Salvador, May 21, 1943, and entered into force on the same date, see EAS No. 238 or 57 Stat. 1000.

Contributions to United Nations Action In Korea: In response to our written inquiry for a clarification of that Government's policy with regard to a troop contribution for the United Nations action in Korea, the Dominican Government has orally informed our Chargé at Ciudad Trujillo[55] that the Dominican Government is thinking of sending 1,000 men to Korea. Our Chargé reports that the Dominican Government is preparing an infantry battalion to be sent to Korea and has urged early acceptance of this oral offer of troops made by Generalissimo Rafael Trujillo, Chief of the Dominican Armed Forces. This offer is now being considered.

Colombia continues to be the only country in Latin America with forces in Korea. A request from Colombia to substitute an artillery battalion for its infantry battalion in Korea has been considered and rejected but with the suggestion that if Colombia desires to train artillerymen it might send an artillery battery to Korea. A Colombia frigate continues to serve in Korean waters. Discussions have been held with the Colombian Embassy in Washington regarding settlement of Colombia's logistical support bill of some $8 millions but no progress has been made,[56] Colombia showing little evidence of intention to pay any of this outstanding bill.

Standardization of Military Equipment: Latin American countries continue to purchase military equipment, primarily jet aircraft and naval vessels, from other than United States sources. Recent significant contracts made by the British include 70 Gloster Meteor jets to Brazil in exchange for cotton and 6 Canberra jet bombers to Venezuela in addition to the 20 Vampire jets Venezuela had previously purchased. There are reports that a contract for 15 jet fighter aircraft has been made with the Dominican Republic. Venezuela has contracted for three naval vessels from England and three from Italy.

The purchase of jet aircraft from non-United States sources came as a result of the desire, not necessarily a need, of the Latin American countries to have modern jet aircraft and the inability of the United States, because of more urgent requirements elsewhere, to meet this demand. The British apparently are able to offer much more attractive terms, including barter arrangements, and assurance of prompt delivery.

Efforts are now being made to meet this situation by making available a limited quantity of training and second-line fighter jet aircraft at prices comparable to those offered by the British. Information that some jet aircraft are available for sale resulted in the Chileans deciding to defer a contemplated purchase from the British and to consider purchasing from the United States. Colombia, Mexico and Peru have also indicated an interest in purchasing United States jet aircraft.

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[55] Richard A. Johnson.

[56] For documentation on this subject, see pp. 769 ff.

Venezuela's contracts with the British and the Italians for naval vessels arise out of similar circumstances—the inability of the United States to make available new naval vessels to Venezuela at comparable prices and within a reasonable time.

With these exceptions, there have been no significant purchases of foreign military equipment by Latin American countries eligible to purchase equipment from the United States under the reimbursable provisions of the Mutual Defense Assistance Act of 1949, as amended. As of April 30, Latin American countries have deposited some $32.3 millions for military equipment, $25.7 millions of which has been shipped, under the terms of this legislation, the greater portion of which has been sold at 10% of the original cost plus the cost of rehabilitation.

W. B. SMITH

S/S–NSC files, lot 63 D 351, NSC 144 series

Memorandum by the Under Secretary of State (Smith) to the Executive Secretary of the National Security Council (Lay) [1]

TOP SECRET [WASHINGTON,] November 20, 1953.

Subject: Second Progress Report on NSC 144/1, United States Objectives and Course of Action with Respect to Latin America.

PART I

NSC 144/1 was approved as governmental policy on March 18, 1953. It is requested that this progress report as of November 16, 1953 be circulated to the members of the Council for their information.

1. *Political*

High Level Consideration of Latin American Problems: The outstanding instance of high-level sympathetic attention to Latin American problems during the period under review was the trip of Dr. Milton Eisenhower through South America. Besides its eminent success as an expression of good will, the visit served to provide essential facts on which to build a revitalized Latin American policy. One of the outstanding by-products of the trip was the laying of the ground work for a marked improvement in our relations with Argentina. The improved political climate is reflected in Argentina by the virtual cessation of attacks on the United States in the controlled press, the resumption of service of the United States press agencies, indications of an improvement in the outlook for private investment, a readiness to support the United States position on the question of Indian participation in the Korean Conference [2] and a greater number of prominent Argentines visiting the United States. On its part, the United States has removed its political reservations to Export-Import Bank assistance to business operations in Argentina, adopted a more favorable attitude on the supplying of certain items of military equipment, and indicated its willingness to cooperate with the Argentine Atomic Energy Commission in the development of Argentine uranium ore resources for sale in principal measure to the United States.

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[1] A title sheet and summary are not printed. Drafted by Mr. Bowdler, Mr. Sayre, Jean H. Mulliken, and Miss Keany; cleared with the Offices of South American Affairs and Middle American Affairs, the Offices of Financial and Development Policy and International Materials Policy, the Policy Planning Staff, and the Department of Defense.

The acute economic problems confronted by Bolivia and the interest of Panama in reviewing the whole range of its special relations with the United States arising from the construction and operation of the Panama Canal have also received consideration at the highest levels of government. In an effort to forestall economic chaos in Bolivia, with the attendant possibility of the government moving further to the left, the Department of State and the Foreign Operations Administration, in consultation with the White House, have been engaged in drawing up a program of emergency grant assistance for that country. The program was announced on October 14, 1953 through an exchange of letters [3] between President Eisenhower and President Paz, which were made public by the White House. The Governments of Argentina, Brazil, Chile and Peru were consulted with respect to the Bolivian situation and informed in advance about the total grant made. It is expected that recommendations on any further assistance to Bolivia will give full consideration to the degree with which more moderate elements have succeeded in establishing themselves in the Bolivian Government. This is in keeping with a basic postulate of our Latin American policy, that in determining the extent of United States assistance, consideration be given to the willingness and ability of the recipient state to cooperate with the United States in achieving common objectives. The United States Ambassador [4] has been authorized in his discretion to inform the President or the Foreign Minister [5] of this and instructed to tell the Bolivians that United States consideration of developmental loans, while not certain in any case, would definitely have to await "further economic and political stabilization" in that country.

Last April the United States acceded to the strong desire of the Government of Panama to enter into conversations on the whole range of special relationships between the two countries arising from the construction and operation of the Panama Canal. These talks opened in Washington on September 10 and are expected to continue for several months. Arrangements were also made for President Remon to visit Washington during the end of September[6]—the first visit of a Chief of State under the new Administration—in order that he might present the Panamanian viewpoint directly to President Eisenhower. The visit appears to have been highly satisfactory to President Remon and it is believed to have contributed to a better understanding between the two countries. The conversations with the Panamanian representatives are proceeding satisfactorily, the Panamanians having concluded the presentation of their problems. These problems are concerned principally with a desire for new concessions from the United States with a view to obtaining greater benefits for Panama from the Canal. Panama has also pressed for revision of the 1903[7] and 1936[8] Treaties, but has been given to understand that the United States will yield none of its basic jurisdictional rights in the Canal Zone, though it is willing to enter into any new arrangements with Panama which may be found feasible during the course of the present conversations.

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[2] For documentation concerning this subject, see volume XVI.

[3] For text of the referenced letters, dated Oct. 1 and 14, 1953, see Department of State *Bulletin*, Nov. 2, 1953, pp. 584–586.

[4] Edward J. Sparks.

[5] Wálter Guevara Arze.

President Eisenhower's trip to the Mexican border to join President Ruiz Cortines of Mexico in the dedication of the Falcon Dam; the general fact-finding trip of Representative Jackson[9] and the tour through South and Central America of members of the Senate Banking and Currency Committee, headed by Senator Capehart,[10] to investigate the obstacles to the expansion of trade, the problems facing private investment and the need for financial assistance from the EX-IM Bank and the International Bank in the hemisphere, represent further gestures of interest and good-will toward Latin America by persons at the top echelons of governments.

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[6] For information concerning President Remón's visit and the text of a joint statement by President Eisenhower and President Remón, released to the press on Oct. 1, 1953, see Department of State *Bulletin*, Oct. 12, 1953, pp. 487–488.

[7] Reference is to the Isthmian Canal Convention between the United States and Panama, signed at Washington, Nov. 18, 1903, and entered into force, Feb. 26, 1904; for text, see Department of State Treaty Series (TS) No. 431 or 33 Stat. (pt. 2) 2234.

[8] Reference is to the general treaty of friendship and cooperation between the United States and Panama, signed at Washington, Mar. 2, 1936, accompanied by 16 exchanges of notes embodying interpretations of the treaty or arrangements pursuant thereto, signed at Washington, Mar. 2, 1936 and Feb. 1 and July 25, 1939, and entered into force, July 27, 1939; for text, see TS No. 945 or 53 Stat. (pt. 3) 1807.

[9] Representative Donald L. Jackson (R.–Cal.), a member of the Subcommittee on Inter-American Affairs of the House Committee on Foreign Affairs, visited most of the countries in Central and South America during the period from Sept. 15 to Nov. 4, 1953; documents pertaining to his trip are in file 033.1100 JA.

[10] The so-called "Capehart group", which included Senators Homer E. Capehart (R.–Ind.), John W. Bricker (R.–Ohio), and J. Allen Frear, Jr. (D.–Del.), and Representative Brent Spence (D.–Ky.), visited a number of countries in Central and South America during the period from Oct. 18 to Dec. 7, 1953; pertinent documents are in file 033.1100 CA.

During the month of October, Assistant Secretary Cabot delivered two major policy addresses on Latin America. In one [11] he paid sympathetic attention to the economic problems confronting the American Republics and postulated four basic principles which should guide the United States in helping them to solve these problems. In the other [12] he examined some of the specific political problems which the United States has recently faced in its relations with Latin America, particularly with respect to Argentina, Bolivia and Guatemala. In contrast to the sympathetic analysis of the problems facing Bolivia and the measures being taken by the United States to assist the Bolivian Government and the conciliatory statement regarding the improved climate in United States-Argentine relations, Mr. Cabot's treatment of the outstanding issues with Guatemala—expropriation of American property and communist influence—indicated the seriousness with which the United States views the course of events in that Republic.

High level attention to Latin American military officials also continued during the period under review with the visits of the Defense Minister of Chile [13] during July and the Air Minister of Peru [14] during September, and the invitation to the Defense Minister of El Salvador [15] to come to the United States to review various Air Force installations during November.

Consultation with Latin American States: During the period under review the United States informed or consulted with the other American Republics on two important issues: the composition of the Korean Political Conference and the British Guiana situation. On the former Latin American votes were crucial to the success of the United States position. As a result, a special effort was made to enlist their support and in so doing the reasons of the United States for limiting membership in the Conference to the participants in the Korean War were carefully explained. In the vote in the General Assembly on this issue seventeen of the twenty Latin American States sided with the United States and three other countries to block the inclusion of non-belligerents.

Following the firm action taken by the British Government in British Guiana to thwart the efforts of the communist-directed People's Progressive Party to take over control of the Government of that territory, the United States communicated its views thereon to Latin American

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[11] Reference is to Mr. Cabot's address made before the Pan American Society of New England, at Boston, Oct. 9, 1953; for text, see Department of State *Bulletin*, Oct. 19, 1953, pp. 513–518.

[12] Reference is to Mr. Cabot's address delivered to the General Federation of Women's Clubs, at Washington, Oct. 14, 1953; for text, see *ibid.*, Oct. 26, 1953, pp. 554–559.

[13] Col. Abdón Parra Urzua.

[14] Col. Mario Saona.

[15] Lt. Col. Oscar Adan Bolaños.

Governments. They were informed that in our view the establishment of a communist bridgehead in British Guiana would be a matter of deep concern to all the American Republics and that we considered that the American Republics should regard the measures taken by the British with genuine satisfaction. In an effort to counteract an apparent inclination on the part of some of the Latin American Governments to ignore or subordinate the immediate central problem of the threat posed by communist infiltration to the peripheral aspects of the colonial question, the United States has taken further steps to impress on Latin American officials the communist nature of the conspiracy and its threat to the security and independence of the American Republics.

Greater Utilization of the Organization of American States (OAS): The United States continued its active participation in the normal activities of the OAS throughout the period. With the approach of the Tenth Inter-American Conference, scheduled to open on March 1, 1954 in Caracas, Venezuela,[16] these activities have been increasingly directed toward preparations for this quinquennial plenipotentiary meeting. The Council of the Organization of American States, during the period under consideration, has been engaged in the formulation of the agenda for the meeting. In accordance with the objective of using the Organization of American States as a means of achieving United States aims, the United States on October 6 presented a proposal for an agenda item on communism entitled "The Intervention of International Communism in the American Republics". Under this general heading it is expected that the United States will submit specific resolutions on the subject of travel controls with the ultimate purpose of obtaining action by as many American Republics as possible to deny necessary travel documents to native and alien communists or communist sympathizers, and thereby to reduce the amount of travel to, from and throughout the Western Hemisphere on behalf of international communism. Consideration is also being given to declarations on the subject of communist penetration in the fields of education and labor and the threat posed by communist propaganda.

Control of Subversive Activities: The United States encouraged other American Republics to take action against the activities of communists and fellow-travellers through an exchange of information. The United States Embassies were requested twice during the period under review to acquaint the Latin American Governments with the nature of forthcoming communist-front international conferences and the action which the United States proposed to take to prevent its nationals from attending in the hope that they would adopt similar measures.

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[16] For documentation concerning the Tenth Inter-American Conference, held at Caracas, Mar. 1-28, see pp. 264 ff.

During Dr. Milton Eisenhower's visit, President Peron indicated that he planned to take stronger action against the official Argentine Communist Party. There are indications that this policy is being put into effect. . . .

. . . .

Control of Shipment of Strategic Materials: As raw material, and especially metal, prices have declined pressures have increased in Latin America for a resumption of trade with Eastern Europe. Iron ore has been moving from Brazil to Poland under a bilateral trade agreement and Brazil's 1954 trade agreement with Czechoslovakia, now ready for signature, will authorize the shipment of iron ore to an annual volume of $2 million. Although iron ore is not a highly strategic item the United States had received assurances from the Compania Rio Doce, Brazil's largest source of iron ore, that its supply would be reserved for the free world. It was on this understanding that priorities were given by the United States, during the period of export control, for machinery required by Rio Doce.

The Bolivian Government has been persuaded to delay action on a draft Czech-Bolivian barter agreement involving some strategic material of secondary importance until further consultation on the subject can take place between the United States and Bolivia. The Bolivian Foreign Minister has stated that his Government has no intention of violating the Battle Act.[17]

Similar assurances continue to be given by the Chilean Foreign Minister.[18] When there was evidence of a recent authenticated case of the delivery of Chilean copper, refined in West Germany, to an East-West trader, the Chilean government cooperated to prevent completion of the transaction. The United States is seeking to obtain, as a condition of the proposed purchase of Chilean copper, that Government's agreement to institution of an effective import certificate-delivery verification system.

2. *Economic*

Encouragement of Private Investment: There appears to be some recognition by Latin American governments of the need for taking positive measures to assure fair treatment to foreign investors if they expect to attract foreign capital.

The Dominican Foreign Office has indicated that it expects to resume negotiations, suspended two years ago, for a Treaty of Commerce and Navigation with the United States. The Chilean Government has acknowledged, in the course of current copper discussions, that tax treatment accorded to copper companies should be improved. The Argentine Government has recently enacted legislation permitting remittance of dividends on new foreign investments up to 8 percent per annum and for repatriation of new capital invested up to 10 to 20 percent per annum. We have brought to the attention of the Argentine authorities the belief of American business concerns, both in Argentina and the United States, that the rate of return permitted will be inadequate to attract substantial amounts of capital. The Government of Ecuador has reached a settlement with foreign bond holders [19] (subject to approval of the Ecuadoran Congress) which improves the outlook for future investments of capital in that country.

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[17] Reference is to the Mutual Defense Assistance Control Act of 1951 (Public Law 213), approved Oct. 26, 1951, commonly called the Battle Act, after Representative Laurie C. Battle of Alabama; for text, see 65 Stat. 644.

[18] Arturo Olavarria Bravo.

In Brazil, on the other hand, the outlook is increasingly unfavorable. The passage of the Petrobraz Bill, which virtually excludes foreign participation in Brazil's petroleum development, represents a backward step. Also, recent public statements by the new Finance Minister to the effect that foreign investment is not desirable for Brazil unless strictly regulated has disturbed prospective investors. The effect of Brazil's current austerity program, including the limitation of imports, has depressed the operations of many foreign investors already established in Brazil, and has tended to discourage new investors whose operations would require imported materials.

The outlook for foreign capital invested in Guatemala has not improved. The Department of State made an energetic formal protest to Guatemala against its expropriation of United Fruit Company lands without payment of fair compensation, and the text of the protest was released to the press [20] in order to make clear the United States position.

Progress in Removal of Shipping Discriminations: The outlook for United States shipping lines operating to the East coast of Latin America continues to show improvement. Brazil has legislation pending which will revoke (1) a law providing for a 50 percent reduction in consular fees on cargo shipped in national vessels, and (2) warehousing and berthing priorities in Brazilian ports previously enjoyed exclusively by Brazilian shipping companies. The United States has a bill pending before the United States Congress for authorization to sell 12 vessels to Brazil to improve its coastal transportation. Recent indications concerning Brazilian maritime policy suggest that the Brazilian government is denying all preferences to Lloyd Brasileiro [21] and is following what appears to be a new non-discriminatory policy toward foreign flag shipping. This is a marked accomplishment in our shipping relations with Brazil. The United States is continuing its representations to the Chilean Government with respect to its recent action arbitrarily to divert commercial cargo to Chilean vessels. This problem is being discussed in current copper negotiations in an attempt to find a solution The United States also made representations to the Ecuadoran Government concerning a 50 percent reduction in consular fees for goods shipped on Ecuadoran or Flota Grancolombiana [22] vessels.

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[19] For information on this subject, see *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1953*, pp. 67–68.

[20] Reference is to an *aide-mémoire* handed to Guatemalan Ambassador Guillermo Toriello Garrido on Aug. 28, 1953 and released to the press on the same date; for text, see Department of State *Bulletin*, Sept. 14, 1953, pp. 357–360.

[21] A shipping company owned and operated by the Brazilian Government.

A Civil Aviation Agreement with Venezuela, which has been in the process of negotiations for approximately three and one-half years was signed in Caracas on August 14, 1953.

International Bank and Export-Import Bank Loan Activities: Loan authorizations by the International Bank and Export-Import Bank, during the third quarter of 1953, totaled $51.9 million as compared with a quarterly average of $63.7 million in 1949-52 inclusive. Loans authorized by the International Bank for Reconstruction and Development (IBRD) during the third quarter totaled $47.09 million, distributed as follows: [23]

Brazil	power	7.30
Nicaragua	road construction	3.50
	power	.45
Chile	pulp and paper mill	20.00
Panama	farm machinery	1.20
	grain storage	.29
Colombia	highways	14.35
		47.09

The Export-Import Bank of Washington made two loans totaling $4.8 million, one of $2.5 million for the development of iron ore properties in Peru and one of $2.3 million for the completion of the Quevedo-Manta Highway in Ecuador. Action on a $3.11 million loan requested by a Brazilian airline, which was deferred pending satisfactory settlement of a rate problem affecting United States airlines operating in Brazil, was approved on October 30, 1953. No further action has been taken on the $120 million loan requested for development of the Toquepala copper project in Peru or the $4 million credit application for airport expansion in Ecuador. Both loans are of considerable political significance in our relations with these two countries. The Bank also approved on October 28 an increase of $2.4 million in the Cochabamba-Santa Cruz Highway credit to provide for the completion of the base surfacing of the highway and the overhauling of the construction equipment which will revert to the Bolivian Development Corporation upon termination of the project. The reconditioning of this equipment will enable the Bolivians to continue construction of feeder and access roads in the Santa Cruz area.

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[22] A shipping company with capital subscribed by Colombia, Ecuador, and Venezuela.

[23] For additional information concerning IBRD loans to Brazil, Chile, Colombia, Nicaragua, and Panama, and Export-Import Bank loans to Bolivia, Brazil, Ecuador, and Peru during the third quarter of 1953, see documentation on U.S. relations with these respective countries.

Chile's proposal to tie a commitment of United States Government support for large development loans to Chile into the copper negotiations was rejected. The proposal afforded the United States an opportunity to stress our policy of considering loans individually on the basis of their economic merits.

Grant Aid for Highway Construction in Central America: Notes have been exchanged [24] with the Nicaraguan Government providing for the use of the $1,000,000 appropriated by the Congress for continuation of construction on the Rama Road. The $1,000,000 appropriated for continuation of construction of the Inter-American Highway is being apportioned.

Emergency Grant Aid: In accordance with our policy of extending grant aid in cases of emergency, where desirable from the standpoint of foreign relations, we have announced a grant of $9 million to Bolivia, $5 million under the Emergency Famine Relief program and $4 million for Foreign Operations Administration funds. The Technical Assistance program in Bolivia is also being increased from $2 million to $4 million in an effort to increase Bolivia's production of essential foodstuffs.

Improving the Trade Outlook for Latin American Export Commodities: An international agreement for the stabilization of the world sugar market [25] was concluded in London in August at a conference sponsored by the United Nations. For a period of years, the United States has supported Cuba's efforts to secure a new international sugar agreement. It participated with Cuba and other governments in producing the draft agreement used as a basis for negotiation, and sent a government-industry delegation to the conference, which worked effectively with Cuba and other Latin American countries to bring about an agreement. The agreement provides machinery to keep supplies in the world market in line with world demand to assure a price fair to both producers and consumers, and seeks also to increase consumption and reduce subsidies. Although the agreement is not yet operative, it is anticipated that it will be ratified by the required number of governments and come into force January 1, 1954.

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[24] For text of the exchange of notes providing for the resumption of construction of the Rama Road, signed at Washington, Sept. 2, 1953, and entered into force on the same date, see TIAS No. 2853 or 4 UST (pt. 2) 1944.

[25] For text of the referenced agreement and documentation relating to the International Sugar Conference, which was held at London, July 13–Aug. 24, 1953, see *United Nations Sugar Conference, 1953: Summary of Proceedings* (New York, 1953).

Technical Cooperation Program: Programming of funds appropriated by the Congress for fiscal year 1954 has been completed. The technical cooperation program will continue on about the same basis but at a slightly expanded rate, with primary emphasis being given to agriculture, education and health and sanitation.

Monetary Stabilization and Fiscal Reforms: Fiscal, budget and exchange reforms were announced in Brazil during the third quarter at the instance of the new Finance Minister, who was given broad powers by the President [26] as a means to correct Brazil's serious inflation and balance of payments problem. A new exchange system went into operation on October 12. Three effective buying rates are established, one for coffee exports, a second for all other commodities, and, third, a fluctuating free market rate for invisible items. On the import side, five categories are established, based on the degree of essentiality, and each is allocated a specified proportion of the exchange available. The selling price of exchange within each category is to be determined by demand and supply, but the Bank of Brazil, through its allocation of exchange and management of the categories, plays a significant role in determination of the rates. The introduction of this auction system represents a *de facto* devaluation of the cruzeiro, but no new parity rate has been submitted to the Fund. It would appear that the amount of exchange flowing into the free market will be reduced. Arrangements to control authorizations to obtain exchange in this market will be required to prevent rates from rising to a much higher level. The Fund did not object to the new scheme as a temporary measure.

Haiti became a member of the International Bank for Reconstruction and Development and of the International Monetary Fund on September 8, 1953. It may now apply to the International Bank for loans to cover new development projects, instead of relying exclusively on the Export-Import Bank.

3. *Information and related activities*

Reduction of Information Programs: The resources of the informational and educational programs in Latin America were diminished at the beginning of the quarter by reductions in staff, operating funds, and supporting services, including the elimination in July of the Voice of America's Spanish and Portuguese broadcasts to the area. Although this readjustment occasioned some interruptions and curtailments of activity, substantial work was done on all of the major tasks of the program.

Programs Directed to the Specific Needs of Individual Countries and Areas: Informational activity was coordinated with diplomatic action to explain and emphasize especially in the Central American countries, the legality of the United States position with regard to Guatemalan expropriation of United Fruit Company lands, and at the same time to impress hemisphere opinion with the gravity of the Guatemalan Communist situation. Similarly coordinated action was taken to temper exaggerated expectations on the part of the Panamanian public in the period prior to discussion of the Panama–Canal Zone relationship, and subsequently, to reap advantage from the successful outcome of President Remon's visit to the United States in September. Special materials were prepared in anticipation of the celebrations, to open in November, of the fiftieth anniversary of Panama.

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[26] Getúlio Dornelles Vargas.

In Bolivia, where anti-United States feeling was ameliorated at the opening of the period by the visit of Dr. Milton Eisenhower, and announcement of the United States decision to sign a contract for tin and to provide direct economic aid, the information program dealt with the problem of maintaining this improved psychological climate through a long period of waiting until the emergency aid was actually awarded. That this effort was at least partially successful has, however, been largely due to the prudently patient attitude shown by the Bolivian Government.

In Chile the uncertainties surrounding the problem of copper exports, together with growing inflation, fanned nationalistic feeling against American-owned companies and United States trade policies, with the result that Communist propaganda increased in volume and effectiveness. Efforts were made to combat the demagogic campaign in favor of selling copper to the Soviet Union by building public awareness of the consequences of such sales in terms of United States-Chilean relations and by discreetly pointing out the unreliability of the Union of Soviet Socialist Republics as a customer. Although the problem was not one which propaganda alone could solve, the meager success of these efforts revealed the inadequacy of the information program in the face of the current tendencies towards social demoralization in Chile. This inadequacy was borne out by an opinion survey completed during the quarter and submitted to the Department for study. Accordingly, steps have been taken to provide new information facilities and activities addressed to the sector most adversely affected, i.e., Chilean labor.

A campaign involving cooperation between our military and information officials in Cuba has been developed, in order to dispel a developing wave of resentment, based chiefly on misunderstanding, of our Military Assistance Agreement with Cuba.

Soviet Imperialism: Soviet imperialism gained a psychological advantage during the period as propaganda on behalf of Latin American trade with the Soviet bloc increased sharply. The campaign was given impetus by the signing of an Argentine-Soviet trade pact, the activities throughout South America of a Soviet trade mission based in Buenos

Aires, the departure of several Latin American trade missions to Satellite countries, and the implementation by Brazil of a trade agreement with Poland. Much United States informational activity—the revelation of poor economic conditions behind the Iron Curtain, exposure of the Soviet's predatory trade practices, et cetera, as well as the constant promotion of Free World solidarity—tends to build resistance to this propaganda, but it is recognized that in the months to come a concerted effort will be necessary to reduce the attractiveness of the Soviet appeal to Latin American self-interest and combat the political effects of such Soviet bloc trade as may materialize.

Three interlocking youth congresses held in the Soviet area in August and September drew large attendance from Latin America, much of it attributable to the paid travel arranged by international Communist organizations. The Third Congress of the World Federation of Trade Unions, held in Vienna in October,[27] also attracted a considerable Latin American contingent. Communist achievement in these projects, while undeniably significant, was tempered by the action of a number of Latin American governments in confiscating the films and printed propaganda brought back by the delegates and by wide dissemination of the reports of certain travelers who were disillusioned by what they observed.

Local Communist and other anti-United States Activities: Improvement in United States-Argentine relations, discussed above, resulted in the almost complete cessation of hostile Argentine propaganda and instead an occasional constructive article which gave reason to hope that Argentina might turn its elaborate information program to purposes more compatible with the United States.

Decided headway has been made in overcoming the effects of Communist agitation against the United States on the issue of racial discrimination. Developments in Korea were utilized with good effect against the "peace" and "bacteriological warfare" claims of local pro-Communist groups.

Association of Latin American Interests with United States Objectives: Effective efforts were made to expand and prolong the popular impact of the gestures of interest and good will towards Latin America made, as recounted in preceding paragraphs, by top-ranking representatives of the United States. Concerted use was made of such informational tools as films, pamphlets, and graphic materials to impress the significance of these developments upon Latin Americans at all social levels and to direct the pro-United States sentiment thus stimulated into support for this country's views and policies.

The tendency of Latin Americans to consider the British Government's action in breaking the control of local political leaders in British

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[27] Oct. 10–21, 1953; documentation on this subject is contained in file 800.062 WFTU.

Guiana unjustified, even in the interests of hemisphere security, presented the information program with new problems, i.e., the prospect of increased dissatisfaction with the United States position on colonialism in the Americas, and the emergence of the Caribbean area as a subject of increased interest to the rest of the Continent. Attention is being given to developing new materials and facilities to meet these needs, and to coordinating our efforts, as appropriate, with those of the British information services.

4. *Military*

Military Assistance Program: The Congress appropriated $15,000,000 for the Military Assistance Program for fiscal year 1954 and re-appropriated some $50,000,000 of unexpended balances from the appropriations for fiscal years 1952 and 1953. Thus, total appropriations for the program in three fiscal years is approximately $101 millions.

Military Assistance Agreements with the following eight Latin American countries are now fully in effect after initialling of the secret military plan with Uruguay on October 14, 1953: [28] Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Peru, Uruguay. Each of the eight countries, except Brazil, Cuba and Uruguay, has contributed currency for local administrative expenses and Military Assistance Advisory Groups have been established in Brazil, Chile, Colombia and Peru. Shipments of equipment have been made to each of the eight countries, except the Dominican Republic and Uruguay. About $11.1 million of the $101 million appropriated to date had been spent on equipment delivered, as of July 31.

There appears to be some basis for considering the inclusion of Haiti in the Military Assistance Program. The Department of the Navy has under consideration a proposal to assign Haiti the defense task of patrolling the Windward Passage with naval craft furnished by the United States.

Military Staff Discussions with Venezuela: The possibility of an effective renewal of staff discussions with Venezuela has improved materially during the period. The principal stumbling block to such renewal has been Venezuelan dissatisfaction over procurement of military equipment from the United States. During the last 60 days it has been possible to comply with a Venezuelan request for Army equipment having a total sales price of over $7 million and to offer it for delivery within 90 days on liberal payment terms authorized by the Mutual Defense Assistance Act. Since this offer appears to have created a favorable Venezuelan attitude toward the resumption of the talks, Embassy Caracas believes that firm arrangements should now be made to this end at an early date.

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[28] For documentation on the referenced military plan, see pp. 1535 ff.

Requirements for Military Installations in Latin America: United States Air Force personnel, with the consent of the Brazilian Government, are planning a survey of possible sites in Brazil for the location of an instrumentation station of the United States Air Force Missile Test Center. The Air Force is studying the feasibility of plans to conduct a similar survey for suitable sites in Venezuela, provided that the Venezuelan Government consents.

Preparations are being made for a possible approach to the Brazilian Government with a view to obtaining rights for the establishment of a United States Army Communication Center in the Recife area. Surveys have disclosed that this location is probably the best in the world for the establishment of a center to relay messages from the United States to Africa and Europe, and vice versa. It would operate in conjunction with other such stations established or contemplated in Eritrea, Ceylon and Hawaii and will cost approximately $10,000,000.

The Department of the Navy is now working on plans under which shipping control stations in Latin America would be established by agreement between the United States and the Latin American countries concerned. The responsibility for working out these arrangements has been assigned to the United States by the North Atlantic Treaty Organization. Two problems are now holding up finalization of United States planning.

(1) It is expected that the *quid pro quo* for agreeing to the establishment of such stations will be a request by the Latin American countries for equipment to operate them.

(2) The Department of the Navy is meeting rather strong resistance from the United Kingdom in making North Atlantic Treaty Organization classified documents on signals and other matters available to Latin American countries, although it is essential that all such stations throughout the world use the same signals, etc.

Inter-American Defense Board: The Board has continued with the preparation of annexes to the General Military Plan. Five Annexes [29] have been prepared, and approved by the Inter-American Defense Board to date for submission to the member governments for approval:

Annex 1—Area of Particular Strategic Importance—10 April 1952
Annex 2—Intelligence and Counter-Intelligence—27 March 1952
Annex 3—Logistics—11 September 1952
Annex 4—Standardization—11 June 1953
Annex 5—Communications—23 July 1953

Chile has approved the General Military Plan. This makes a total of ten countries that have approved the Plan.

Joint Brazil-United States Defense Arrangements: Still under consideration is a proposal to establish a new defense board composed of United States and Brazilian officials. The only problem which now appears to be holding up the formal creation of the Board is a decision by the United States as to (1) whether the Brazilian Foreign Office and the Department of State are to have full membership on the Board and (2) the name of the new board.

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[29] None printed. Regarding the General Military Plan, see footnote 49, p. 23.

Army, Navy and Air Force Mission: During the period under review Army Mission Agreements with Cuba [30] and Costa Rica,[31] an Air Force Mission Agreement with Cuba,[32] and a Naval Mission Agreement with Chile [33] were extended for two or more years. Negotiations for an Army Mission Agreement with Nicaragua are underway.[34] Peru,[35] Paraguay and Honduras [36] have requested the extension of Army Mission Agreements and Paraguay, Honduras [37] and Chile [38] have requested the extension of Air Force Agreements. Mission Agreements with Colombia, Bolivia, Ecuador and Guatemala have lapsed. These countries continue to comply with the provisions of the Agreements. With the exception of the Mission Agreements with Guatemala, discussions have been held on extension of these agreements.

As a matter of United States policy it has been decided that United States Army and Air Force Missions should be maintained in Guatemala, even though the present Guatemalan Government is strongly influenced by Communists. Guatemalan Armed Forces apparently have not been infiltrated by the Communists and appear to be the most significant element in Guatemala capable of influencing the present undesirable political situation. United States Missions could perform the useful role of promoting pro-United States attitudes among Guatemalan military personnel. Although the Agreements with Guatemala have expired, the Guatemalan Government continues to observe their provisions and there are indications that Guatemala desires to retain the Missions.

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[30] For text of the exchange of notes, signed at Washington, June 2, Sept. 21, and Oct. 13, 1953, and entered into force on the latter date (operative retroactively to Aug. 28, 1953), extending and amending the agreement of Aug. 28, 1951, providing for the services of a U.S. Army mission to Cuba, see TIAS No. 2962 or 5 UST 735.

[31] For text of the exchange of notes, signed at Washington, July 2 and Sept. 18, 1953, and entered into force on the latter date, extending the agreement of Dec. 10, 1945, as amended, providing for the establishment of a U.S. Army mission in Costa Rica, see TIAS No. 3109 or 5 UST (pt. 3) 2502.

[32] For text of the exchange of notes, signed at Washington, July 7, Sept. 21, and Oct. 13, 1953, and entered into force on the latter date, extending the agreement of Dec. 22, 1950, as extended and amended, providing for the services of a U.S. Air Force mission to Cuba, see TIAS No. 2869 or 4 UST (pt. 2) 2200.

[33] For text of the exchange of notes, signed at Washington, Oct. 6 and 26, 1953, and entered into force on the latter date, extending and amending the agreement of Feb. 15, 1951, providing for a U.S. Navy mission to Chile, see TIAS No. 2867 or 4 UST (pt. 2) 2185.

[34] An agreement providing for a U.S. Army mission to Nicaragua was signed at Managua, Nov. 19, 1953, and entered into force on the same date; for text, see TIAS No. 2876 or 4 UST (pt. 2) 2238.

[35] An exchange of notes, signed at Washington, Mar. 18 and Apr. 20, 1954, and entered into force on the latter date (operative retroactively to June 20, 1953), extended and amended the agreement of June 20, 1949, providing for the services of a U.S. Army mission to Peru; for text of the notes, see TIAS No. 2997 or 5 UST (pt. 2) 1290.

[36] An exchange of notes, signed at Washington, Oct. 5 and Nov. 23, 1953, and entered into force on the latter date, extended the agreement of Mar. 6, 1950, providing for the establishment of a U.S. Army mission in Honduras; for text of the notes, see TIAS No. 2873 or 4 UST (pt. 2) 2215.

[37] An exchange of notes, signed at Washington, Oct. 5 and Nov. 23, 1953, and entered into force on the latter date, extended the agreement of Mar. 6, 1950, providing for the establishment of a U.S. Air Force mission in Honduras; for text of the notes, see TIAS No. 2872 or 4 UST (pt. 2) 2212.

[38] An exchange of notes, signed at Washington, Sept. 9, 1953 and Mar. 15, 1954, and entered into force on the latter date (operative retroactively to Feb. 15, 1954), extended the agreement of Feb. 15, 1951, providing for the establishment of a U.S. Air Force mission in Chile; for text of the notes, see TIAS No. 2929 or 5 UST 358.

Training in United States Service Schools: A substantial number of Latin Americans continued to receive training in Service Schools either in the United States or in the Canal Zone. During fiscal year 1953 the three Armed Services gave training to over 2700 Latin Americans as follows: Army, 797; Navy, 1382 and Air Force, 563.

Contributions to United Nations Action in Korea: Although the Dominican Government had indicated an interest in contributing a battalion of infantry for service in Korea, the signing of the armistice in Korea caused it to condition the offer on the breakdown of the truce and a resumption of fighting.

Colombia continues to be the only Latin American country with forces in Korea. There was renewed pressure from Colombia to obtain an early settlement of its reimbursement bill, now over $10 millions, after a statement by Colombian President Rojas in a press conference that Colombia owed this amount to the United States for logistic support furnished Colombian forces in Korea and would pay it if asked to do so. Pending a legal decision by the Attorney General [39] on a new reimbursement policy and at the request of the President, no active efforts are being made to effect collection of the reimbursement bill now owed by Colombia.

United States Air Force Good Will Jet Aircraft Tour of Latin America: The United States Air Force has decided to make a tour of Latin American countries to demonstrate United States jet aircraft with the object of persuading Latin American countries desiring jet aircraft to buy them from the United States rather than from European countries. While the tour may achieve some success in this respect it is expected that it will also probably (1) create good will in Latin America for the United States by demonstrating United States interest in Latin America, (2) enhance the prestige of the United States Air Force Missions in Latin America, and (3) train United States Air Force personnel assigned to the tour.

Sale of Military Equipment to Latin America: During the period under review there has been a sharp increase in the value and amount of military equipment being purchased by Latin American countries.

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[39] Herbert Brownell, Jr.

Significant purchases or procurement requests include: Venezuela, $7,000,000 worth of M–41 tanks and spare parts; Argentina, $500,000 worth of tank motors; Argentina, Brazil, Colombia, the Dominican Republic and Ecuador, a total of 200 T–6D aircraft worth approximately $3,000,000. The first of two submarines built for Peru was launched at Groton, Connecticut on October 27, 1953.

El Salvador's ambitious program for the procurement of military equipment, as a result of increased pressures from Guatemala, appears to have been dropped or at least deferred. No action was taken on an offer of the Department of the Army on July 24, 1953 to sell some $2.3 millions worth of equipment. Instead El Salvador is purchasing a relatively small quantity of military equipment.

Cuba is planning to buy a rather substantial quantity of arms from the Department of Defense, mostly as a result of recommendations made from time to time by the United States Army Mission to Cuba. These arms will materially improve Cuba's ability to participate in hemisphere defense but, at the same time, it is fairly apparent that Cuba has chosen this time to procure arms from limited financial resources for domestic political reasons.

Guatemala, possibly as a result of an inability to obtain military equipment elsewhere as well as a desire to have United States military equipment, has continued its pressure on the United States Government to permit Guatemala to purchase military equipment in the United States. This was probably the foremost problem in the minds of Guatemalan military officials when the Assistant Secretary of State for Inter-American Affairs visited Guatemala. The assignment of a new Guatemalan Military Attaché [40] to the United States in October furnished an opportunity to raise the problem again with the Department of the Army. The Military Attaché was told that Guatemala was not eligible by public law to purchase military equipment from the Department of Defense. Guatemala has been denied export licenses for commercial arms purchases because these arms might be the means of keeping a government in power which is strongly influenced by the Communists.

Procurement by Latin American Governments of Military Equipment from Non-United States Sources: A review of data on procurement by Latin American Governments of military equipment from non-United States sources indicates that the Latin American Governments are purchasing fairly substantial quantities of military equipment from commercial firms in Canada and the following European countries: Belgium, Czechoslovakia, Denmark, France, Italy, Spain, Sweden, Switzerland and the United Kingdom. The United Kingdom has supplied only jet aircraft and a limited quantity of ships. There have also been sales by Argentina, Brazil, the Dominican Republic and Mexico to other Latin

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[40] Col. Enrique Peralta Azurdia.

American countries. It appears to be confirmed that Latin American Governments have purchased from other sources because the United States Government could not make the desired equipment available or the price and terms of purchase offered by the United States were not as attractive as those offered by other suppliers.

Most of these purchases have been on a cash basis. The only significant barter deal was for jet aircraft between the Cotton Council in the United Kingdom and the Brazilian Government. Indications are however that more barter arrangements may be in the offing. The prices paid have been, in the case of jet aircraft and vessels, substantially lower than United States prices. In a few cases availability rather than price has been the primary consideration, e.g., Venezuela.

With the possible exception of the use of Dominican manufactured carbines by an MDAP unit in Colombia, and the procurement by Brazil of equipment for an MDAP naval unit, none of the non-standard military equipment purchased by Latin American Governments was destined for MDAP unit.

The procurement of non-United States equipment does not present a serious threat to United States Service Missions but does pose a serious threat to standardization objectives of our national policy. Continued and increased purchases will lessen the influence of such missions and might result in a decision by some Latin American Governments not to continue the missions. This appears most immediate in Guatemala. Some of the purchases have resulted in the training of Latin Americans in Europe and the assignment to the purchasing country for temporary periods of civilian technicians to train personnel and advise on the use of equipment. In general, however, a decision by a Latin American Government not to keep a United States military mission would probably be based more on other considerations that the ability to obtain military equipment from the United States.

PART II

No evaluation of the policy stated in NSC 144/1 is attempted at this time pending issuance of Dr. Milton Eisenhower's report [41] and because NSC 144/1 was just recently adopted.

WALTER B. SMITH

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[41] Dr. Eisenhower's report on the results of his factfinding mission to South America, submitted to President Eisenhower under date of Nov. 18, 1953, was published as *United States-Latin American Relations: Report to the President* (Department of State Publication 5290, Washington, 1953); it is also printed in the Department of State *Bulletin*, Nov. 23, 1953, pp. 695-717. See also the editorial note, p. 196.

Editorial Note

The National Security Council at its 174th meeting on December 10, 1953, discussed United States objectives and courses of action with respect to Latin America in light of the second progress report on NSC 144/1 (NSC Action No. 980–*a*) and noted the President's statement that he had sent communications to appropriate departments and agencies of the Executive branch regarding implementation of Dr. Milton Eisenhower's report on United States–Latin American relations (NSC Action No. 980–*b*). The Council also noted President Eisenhower's desire that the Department of Defense investigate the feasibility of accelerating deliveries of military equipment to the Latin American republics (NSC Action No. 980–*c*). A memorandum of discussion at the 174th NSC meeting, dated December 11, 1953, is in the Eisenhower Library, Whitman file, NSC records.

On February 4, 1954, the NSC's Executive Secretary, James S. Lay, Jr., circulated to the NSC a memorandum by the Assistant Secretary of Defense for International Security Affairs, H. Struve Hensel, to the President's Special Assistant for National Security Affairs, Robert Cutler, dated February 2, 1954, p. 169, detailing the steps taken to accelerate deliveries of military equipment to the Latin American republics. At its 184th meeting on February 11, 1954, the NSC noted the action taken to accelerate deliveries (NSC Action No. 1038).

Editorial Note

In a memorandum to the National Security Council, dated April 28, 1954, Mr. Lay stated the following: "In response to a request from the Operations Coordinating Board the President has this date designated the OCB as the coordinating agency for the current NSC policy on Latin America contained in NSC 144/1." (S/P–NSC files, lot 62 D 1, NSC 144/1)

The OCB was established on September 2, 1953, in pursuance of Executive Order 10483, for the purpose of strengthening the national security machinery by providing for the coordinated interdepartmental implementation of national security policies approved by the President after consideration in the National Security Council. The Board originally consisted of the Under Secretary of State, who served as chairman, the Deputy Secretary of Defense, the Director of the Foreign Operations Administration, the Director of Central Intelligence, and the Special Assistant to the President. The Director of the United States Information Agency and the Special Assistant to the President for National Security Affairs acted as advisers to the OCB. The Board met once a week on Wednesdays; meeting sites rotated among the offices of the designated members. Within the Department of State, the Operations Coordinator was responsible for the coordination of operational planning, and he constituted the normal channel of communication between the Department and the executive officer and staff of the OCB. For additional information concerning the formation of the OCB, see the Department of State *Bulletin*, September 28, 1953, pages 420–422. For documentation relating to the activities of the OCB, see volume II.

611.20/5-1154

Progress Report Prepared in the Department of State for the Operations Coordinating Board[1]

TOP SECRET [WASHINGTON,] May 25, 1954.[2]

THIRD PROGRESS REPORT ON NSC 144/1, UNITED STATES OBJECTIVES AND COURSES OF ACTION WITH RESPECT TO LATIN AMERICA

A. SUMMARY

1. *Major actions*

This report covers the period November 15, 1953–May 1, 1954.

The United States participated in the Tenth Inter-American Conference held at Caracas, Venezuela from March 1–28, 1954. The United States achieved its primary objective of obtaining a clear-cut policy statement[3] against communism and laid the ground-work for subsequent multilateral action against communism in Guatemala. A decision was taken at the Conference to hold an economic conference at Rio de Jahneiro in the fall.[4]

Preliminary action has been taken to implement the Eisenhower Report through recommended increases in appropriations for certain programs now being carried out in Latin America. Comments on the Report have been received by the Department of State and are under study.

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[1] Covering memorandum by Mr. Holland and Walter Radius, the Operations Coordinator, dated May 11, 1954, is not printed. Drafted by Mr. Sayre; cleared with the Offices of Regional American Affairs, Middle American Affairs, and South American Affairs, the Bureau of Economic Affairs, the Policy Planning Staff, the Office of the Deputy Under Secretary of State, the United States Information Agency, and the Department of Defense. The report was prepared for the Operations Coordinating Board; it was transmitted to the OCB under cover of a memorandum by Mr. Radius to Mr. Elmer Staats, Executive Secretary of the OCB, dated May 25, 1954, not printed. (OCB files, lot 62 D 432, "Latin America, 1953–1954")

[2] The source text contains no indication of a drafting date; the date supplied is that of the transmittal memorandum.

[3] Reference is to Resolution XCIII ("Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism"), adopted by the Tenth Inter-American Conference; for text, see *Tenth Inter-American Conference: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 156–157.

[4] Reference is to the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (Meeting of Ministers of Finance or Economy), popularly referred to as the Rio Conference, which was held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation relating to the conference, see pp. 313 ff.

Grant economic aid to Bolivia was increased. A decision has been made to purchase 100,000 short tons of copper from Chile. Negotiations with Panama with respect to the Canal Zone are continuing.

In pursuance of the anti-communist resolution approved at Caracas, the United States is consulting with all Latin American countries except Guatemala regarding control of travel in the interests of communism.

There has been no significant change in the outlook for private investment in Latin America except some improvement in Argentina and Panama and a deterioration in Costa Rica and the Dominican Republic.

No significant changes are noted in the information and military assistance programs but there is continued concern over repeated setbacks on arms standardization and our seeming inability to provide classified information to the Inter-American Defense Board so that it will be in a position to do realistic military planning.

2. *Policy considerations*

The existing policy appears to be satisfactory.

3. *Extent of agency interests*

The following agencies have an interest in this report: State, Treasury, Defense, FOA, USIA, Commerce, CIA, ODM and the Export–Import Bank.

4. *Emerging problems and future actions*

The economic situation in Bolivia and Chile continue to be serious with a further deterioration in Chile. Communism continues a threat to the hemisphere with the most serious problem in Guatemala which affects the whole Central American area and a lesser but growing problem in Brazil. The forthcoming economic conference in Rio de Janeiro will call for a series of decisions on our economic policy.

B. DETAILED DEVELOPMENTS OF MAJOR ACTION

Political

5*(a) Greater Utilization of the Organization of American States (OAS)*—The principal event in our inter-American relations during the period under review was the Tenth Inter-American Conference which met during the month of March in Caracas, Venezuela. This Conference, the supreme organ of the OAS which convenes every five years, dealt with the whole range of Inter-American relations—juridical-political, economic, social, cultural and organizational matters. A brief summary of the action taken at Caracas is attached (Tab A).[5] Communism and economic problems, being the issues of principal concern at the Conference, are discussed in the pertinent sections of this report.

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[5] Not printed.

Primary objectives of the United States at Caracas were to quicken Latin American awareness of the dangers of communist penetration in this hemisphere, to obtain agreement on measures to combat it, and to achieve further isolation of Guatemala, as the most significant center of communist influence in the Americas, laying the groundwork for subsequent positive action against Communism in that country through the OAS. The Conference approved a resolution embodying: (1) a clear-cut policy determination that the activities of the international communist movement constitute intervention in American affairs; (2) a recommendation on measures for exposing, and exchanging information on the activities of persons serving the international communist movement; and (3) a declaration that the domination or control of the political institutions of any American State by the international communist movement would call for a meeting of consultation to consider the adoption of appropriate action under existing inter-American treaties. Seventeen of the countries represented at Caracas supported this resolution, Argentina and Mexico abstained, and Guatemala voted against, at the same time denouncing Guatemala's adherence to the anti-communist resolutions adopted at the Bogota (1948)[6] and Washington (1951) Conferences.[7]

The consideration on the resolution, during which the Guatemalan situation loomed in the background but was not brought into the open, except by the Guatemalan delegation's own aggressive attitude, revealed the ambivalent nature of the viewpoints of a considerable number of Latin American delegations toward the communist menace. As a general proposition, a substantial majority were willing to condemn the intervention of international communism and agree that collective action to combat it would be warranted when it gained domination or control over an American State. This disposition was not transferable in the case of every delegation, however, to the specific threat inherent in the Guatemalan situation. It appears from the views expressed that the number of Latin American states (particularly the more influential ones) which at this time regard the growth of communist influence in the Guatemalan Government as a serious threat to their peace and security is not sufficient to bring about OAS action.

In its capacity as member of the Inter-American Peace Committee and as one of the guarantor powers of the Peru–Ecuador boundary, the

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[6] Apparent reference to Resolution XXXII ("The Preservation and Defense of Democracy in America"), adopted by the Ninth International Conference of American States; for text, see *Ninth International Conference of American States: Report of the Delegation of the United States of America With Related Documents*, pp. 266–267.

[7] Apparent reference to Resolution VIII ("Strengthening of Internal Security"), adopted by the Fourth Meeting of Consultation of Ministers of Foreign Affairs; for text, see *Fourth Meeting of Consultation of Ministers of Foreign Affairs: Proceedings*, pp. 244–246.

United States assisted in the establishment of an atmosphere which led to a settlement of two disputes between American states during the period under review. Consideration by the Peace Committee of the Haya de la Torre asylum case,[8] which had been a constant source of friction between Colombia and Peru for the past five years, preceded the conclusion of an agreement between the parties under which Haya de la Torre was permitted to leave Peru. A dispute arising from a frontier violation, involving the trespassing and capture of Peruvian soldiers on Ecuadorian territory, was successfuly terminated through the intervention of the guarantor powers.

5*(b) Consultation with Latin American States*—During the period under review the United States consulted with the Latin American countries, for the purpose of enlisting their support, on several issues before the Eighth Regular Session of the United Nations General Assembly [9] and the Tenth Inter-American Conference which were of major importance to the United States. In the United Nations these involved the items relating to Puerto Rico,[10] Morocco and Tunisia [11] and the Administrative Tribunal Awards.[12] The success of the United States position on each of these matters was attributable in considerable measure to the support received from a substantial number of Latin American states. In preparation for the Tenth Inter-American Conference, United States missions in Latin America were supplied in so far as possible with a general outline of our views on the items on the agenda and instructed to communicate them to the Foreign Office as considered appropriate. Special consultations were held with certain Latin American states regarding our anti-communist resolution. These consultations served to clarify the motives and purpose of the United States proposal and undoubtedly contributed to the size of the affirmative vote which the resolution received.

5*(c) High-Level Consideration of Latin American Problems*—The composition of the United States Delegation to the Tenth Inter-American Conference [13]—which included the Secretary of State, two Senators and six other persons holding top echelon positions in various departments of the Government—marked a further instance of high-level sympathetic attention to Latin American problems. Secretary Dulles spent two weeks in Caracas, during which time he participated fully in the work of the Conference as well as the protocolary activities connected therewith. He also held private talks with a majority of the Foreign Ministers attending the Conference in order to afford them an opportunity to discuss special bilateral problems not directly related to the work of the Conference.

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[8] Reference is to the case involving Victor Raúl Haya de la Torre, the Peruvian political leader who had sought asylum in the Colombian Embassy in January 1949 and was unable to leave until Mar. 23, 1954, when the Peruvian Government permitted him to proceed to Mexico.

[9] The Eighth Regular Session of the General Assembly, which met at New York, Sept. 15–Dec. 9, 1953, recessed without being reconvened.

[10] For documentation relating to this subject, see vol. III, pp. 1427 ff.

[11] For documentation concerning these subjects, see volume XI, Part 1.

[12] For documentation relating to this subject, see vol. III, pp. 312 ff.

[13] For a list of the U.S. Delegation, see *Tenth Inter-American Conference: Report of the Delegation of the United States*, pp. 203–205.

Dr. Milton Eisenhower rendered on November 18 his report to the President on United States-Latin American Relations based on his study trip to the ten countries of South America, during the period June 23–July 29, 1953. This report was referred by the President to all government agencies concerned for comments and suggestions on its implementation. It has been approved in principle by the President. The comments have been received by the Department of State and are now being studied. In anticipation of the Tenth Inter-American Conference at Caracas, and in line with recommendations of the Eisenhower report, however, the Department of State recommended to the Bureau of the Budget that consideration be given to increasing by some $17,000,000 existing programs in Latin America. Aside from continuation of existing programs at the current rate, increases were recommended for the bilateral and OAS technical cooperation programs, the Inter-American Highway and the Rama Road in Nicaragua, a development program in Panama, OAS organizations, the exchange of persons program, American schools in Latin America and the information program. All of these recommendations have not yet been acted on favorably but increased authorizations for the Inter-American Highway and Rama Road have been approved by the Congress, and increased appropriations for the exchange of persons program is now being considered.

During the period under review the acute economic problems confronting Bolivia, Brazil and Chile continued to receive consideration at the highest levels of government. On March 15, 1954 President Eisenhower approved a recommendation, concurred in by the Secretaries of State and Agriculture,[14] the Director of Foreign Operations [15] and the Director of the Budget,[16] that the amount of agricultural commodities being made available to Bolivia be increased by $3 million. This increase was intended to assure that at least minimum supplies of wheat are available during the critical months of the Bolivian winter. The decision was taken in accordance with a basic postulate of our Latin American policy, that in determining the extent of United States assistance, consideration by given to the willingness and ability of the recipient state to cooperate with the United States in achieving common objectives. In recent months the moderate elements have gained increasing strength in the Bolivian government. This trend has manifested itself in the stronger anti-communist stand taken by the President and Foreign Minister, exemplified by Bolivian support for the anti-communist resolution presented by the United States at the Caracas Conference.

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[14] Ezra Taft Benson.

[15] Harold E. Stassen.

[16] Joseph M. Dodge.

Following several months of consideration and negotiation, the United States on March 26, 1954 notified the Chilean Government of its decision to buy 100,000 short tons of Chilean copper. This action provided the Chilean Government with a much-needed breathing spell in a rapidly deteriorating economic situation. Throughout the negotiations the United States sought, in accordance with the postulate stated in the previous paragraph, to couple its offer to purchase copper with promises from Chile to reform the prevailing tax, exchange and sales system relating to copper production in order to place its copper in a competitive position in the world market and to adopt measures to prevent sales to the Soviet bloc. The decision to purchase the copper was taken after a bill, embodying most of the principles favored by the United States, had been submitted to the Chilean Congress and renewed assurances had been obtained, orally and in writing, that Chile would sell copper "from whatever source," and "in all forms," only for shipment and use in the Western world.

An urgent request by Brazil for wheat was met by agreement to negotiate the sale of 100,000 tons of surplus wheat for proceeds derived from the sale to the U.S. of an equivalent value of strategic materials from Brazil. The Department considered it inadvisable at this time to approve a Brazilian proposal to establish a new Cabinet level joint economic commission, but invited Brazil to hold bilateral talks with us on economic problems prior to the forthcoming Rio Conference this fall.

Negotiations with Panama covering the special relationsip arising from the construction and operation of the Panama Canal (discussed in previous progress report [17]) are continuing. The United States has completed its comments on the original Panamanian proposals. The talks are expected to recess shortly for several weeks while the Panamanian delegation returns to Panama for consultations. The Panamanian Delegation professes to find the United States position "too negative." Many of the Panamanian Government's requests were of such a nature that the United States had no alternative but to reject them since they would have impaired our basic jurisdictional rights in the Canal Zone or would have involved the expenditure of large sums of money in Panama's behalf for which no satisfactory justification and/or commitment could be perceived. However, the overall adjustment which the United States Government has told the Panamanian Government that it is prepared to make would be favorable to Panama.

Further gestures of interest and good-will toward Latin America are evidenced by (1) the generally favorable report issued by the Senate

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[17] Reference is to the second progress report on NSC 144/1, dated Nov. 20, 1953, p. 26.

Banking and Currency Committee [18] on the findings of and recommendations reached by the Capehart Mission following its tour through Central and South America; (2) the special missions to the installation of Jose Figueres as President of Costa Rica and the 50th Anniversary celebrations of the founding of the Republic of Panama,[19] headed in each instance by Governor Lodge [20] of Connecticut, as personal representative of the President; and (3) the attendance of Vice-President Nixon at the special session of the Council of the OAS in observance of Pan American Day.

Similar high-level attention in the military field continued during the period under review with the visit of the Minister of War of Colombia [21] to the United States at the invitation of the Department of the Army, a good-will tour of a squadron of U.S. jet military aircraft through Central and South America, and the visit of the aircraft carrier U.S.S. *Roosevelt* to Brazil, Uruguay, Argentina and Peru.

6*(a) Control of Subversive Activities*—In November and December, 1953 Cuba and Panama, respectively, outlawed communist activities within their jurisdictions.

United States efforts to further the objective of encouraging individual and collective action against communist activities centered on proposing action by the Tenth Inter-American Conference on specific measures which the governments might take in this respect, and on follow-up action to implement this recommendation. In adopting the anti-communist resolution submitted by the United States, the Caracas Conference recommended to the American republics that they give special consideration to the following steps:

> 1. Measures to require disclosure of the identity, activities and sources of funds, of those who are spreading propaganda of the international communist movement or who travel in the interests of that movement, and of those who act as its agents or in its behalf; and
> 2. The exchange of information among governments to assist in fulfilling the purpose of the resolutions adopted by the Inter-American Conferences and Meetings of Foreign Ministers regarding international communism.

Following the Conference, United States Missions in all the American republics, except Guatemala, were instructed, in their discretion, to provide the local government with copies of a study,[22] prepared by the Department of State on the attendance of Latin Americans at communist-sponsored conferences, pointing out that the study was being made available in accordance with the Caracas resolution. At the same time the missions were requested to bring to the attention of local governments copies of the United States passport and visa regulations and to encourage them to adopt similar regulations.

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[18] *A study of the operations in Latin American countries of the Export-Import Bank and International Bank and their relationship to expansion of international trade: an interim report:* Senate Report 1082, 83d Cong., 2d Sess. (Washington, 1954).

[19] For information on the referenced special missions to Costa Rica and Panama, see the Department of State *Bulletin*, Nov. 2, 1953, p. 586.

[20] John Davis Lodge.

[21] Brig. Gen. Gustavo Berrio Muñoz.

[22] Instructions were contained in a circular airgram, dated Apr. 19, 1954, not printed (720.001/4–1954)

6(c) Control of Shipment of Strategic Materials—A shortage of copper in Soviet bloc countries has brought renewed efforts by East–West traders to obtain supplies from Mexico and Chile either directly or by transshipment. Informal arrangements with Mexico's principal copper exporters for screening all questionable transactions have continued effective. Controls in Chile promise to become more effective with the adoption by the Chilean Government of the Import-Certificate-Delivery Verification system. In connection with the recent U.S. agreement to purchase 100,000 short tons of copper for the U.S. stockpile, Chile renewed its promise to restrict sales to the free world by means of a confidential note[23] promising not to sell copper, in any form or from any source, except for shipment to and use in western countries. Chile also agreed to require delivery verification on all shipments in order to prevent transshipments or fraudulent use of documents.

An increasing interest in trade with the Soviet bloc is apparent throughout Latin America, and a number of trade agreements have been negotiated with curtain countries. The commodities covered by agreements concluded so far are not, however, of strategic significance.

Economic

7(a) Encouragement of Private Investment—The outlook for private investment has improved in Argentina and Panama and deteriorated in Costa Rica and the Dominican Republic. Elsewhere there has been little change.

The *Argentine* Government, and President Peron himself in both confidential and public utterances, has indicated acceptance of the idea that attraction of foreign private capital is essential to Argentine economic development. Argentina had previously enacted an investment law designed to attract foreign private capital. American businessmen, both in Argentina and in the U.S., have expressed reservations as to the overall attractiveness of this legislation, and these reservations have reached the ears of the Argentine Government. As a result, the Argentines have under study modifications designed to satisfy expressed objections, and some changes in the implementing regulations have already been made.

The *Panamanian* Government is increasingly aware of the need for encouraging private investment. Contracts were signed recently by the municipalities of Colon and Panama City with the American-owned power and light company, ending a long and bitter period of litigation which has had an adverse effect on U.S. investments in Panama. These contracts provide for a moderate lump sum payment to the municipalities by the company in return for exemption from municipal taxation for twenty-five years.

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[23] Reference is to Chilean Foreign Office note No. 3, dated Mar. 25, 1954; a copy and translation were transmitted to the Department of State under cover of despatch 763, from Santiago, dated Mar. 26, 1954, not printed. (825.2542/3–2654)

American firms operating in the *Dominican Republic* have been subjected to increasing harassment and discriminatory treatment in recent months. An official protest was made to the Dominican Government early this year. It was pointed out that the policy would inevitably discourage further investments. Following these representations the position of the American companies concerned has improved somewhat, but the outlook is not encouraging.

Since the inauguration of President Figueres in November 1953 the climate for private investment in *Costa Rica* has deteriorated. A growing nationalism is evident in new legislation to raise import taxes and in the extreme terms which the Government is trying to force on the United Fruit Company in the renegotiation of its contracts.

The *Caracas Conference* focused attention on the problem of facilitating the flow of private capital into underdeveloped areas, and the ways in which countries seeking new investments can encourage them. Taxation treaties, in particular, received attention.

Shipping, Aviation and Telecommunication—The outlook for United States shipping lines operating to Latin America continues to improve. Legislation in the United States and Brazilian congresses is now in the final stages looking toward the completion of the major aspects of the U.S.-Brazilian shipping program, which should eliminate the basis for discrimination against U.S. shipping lines. The problem regarding the discrimination, by the Chilean Government, on cargoes moving from the west coast of the U.S. continues. It is believed that negotiations now under way will assist in correcting this situation.

The civil aviation agreement with the Government of Venezuela has been ratified, and the services envisaged under this agreement have been put into operation. However, the United States still has some outstanding problems in the aviation field in Brazil, Colombia and Mexico.

In the field of telecommunications, the North American Regional Broadcasting Agreement, which was signed in 1950,[24] is still before the U.S. Senate for consent to ratification. A meeting with representatives of the Government of Mexico looking toward the working out of an interim agreement on telecommunication matters closed on April 2,[25] after a week's discussion, without arriving at any agreement. Another meeting is scheduled in Mexico City in October 1954.

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[24] For text of the agreement, with final protocol, signed at Washington, Nov. 15, 1950, by representatives of Canada, Cuba, Dominican Republic, United Kingdom in respect of the Bahama Islands, and the United States, and entered into force for the United States, Apr. 19, 1960, see TIAS No. 4460 or 11 UST 413.

[25] The referenced discussions were held at Washington, Mar. 29–Apr. 2, 1954; summary reports by the U.S. Delegation are in files 911.40/5–654 and 911.4112/5–1154.

The second meeting of the Interim Committee of the Pan American Highway Congress, which is working on the plans and agenda for the 6th Pan American Highway Congress to be held in Caracas in July,[26] is completing its work. The U.S. was able to secure acceptance of the major portion of its proposals for this meeting.

7*(b) International Bank and Export-Import Bank Loans*—Loans authorized by the International Bank and the Export-Import Bank for the five month period November 15, 1953–April 15, 1954 totaled $69.926 million, with an additional $18 million pending. This is roughly equivalent to the quarterly rate of lending throughout the period 1949–52, $63.7 million, and indicates a slowing down of loan activities of the Export-Import Bank.

Loans authorized by the IBRD totaled about $51.5 millions, distributed as follows:[27]

		$ millions
Brazil	Railway construction	$12.5
	Electric power	28.8
Ecuador	Highways	8.5
Peru	Agricultural machinery	1.7
		$51.5

The following credit is under negotiation by the Bank and the NAC has advised the US Executive Director[28] that it has no objection to its favorable consideration:

		$ millions
Peru	Irrigation	$18.0
		$18.0

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[26] The sixth Pan American Highway Congress convened at Caracas, July 11–23, 1954; the final report of the U.S. Delegation, dated Sept. 1, 1954, is filed under 398.2612 IA/9-1454. For text of the final act of the Congress, see *Sexta Congreso Panamericana de Carreteras: Acta Final* (Caracas, 1954).

[27] For additional information on the following loans, see the documentation concerning U.S. relations with Brazil, Ecuador, and Peru.

[28] Andrew N. Overby.

Loans made by the *Export Import Bank*, listed below, are principally small exporters credits:[29]

		$ millions
Argentine*	Locomotives	$2.520
Brazil	Textile machinery	.705
Chile	Railway equipment	.072
Cuba	Power	12.000
Colombia*	Textile machinery	1.000
Mexico	Textile machinery	.054
Uruguay†	Steel mill expansion	2.475
		$18.426

The Export-Import Bank has also allocated $2.5 million out of previously authorized credits for the improvement of airports in Ecuador.

7(c) Economic Assistance to Latin America—The Executive Branch has requested the Congress to appropriate $23.5 millions for bilateral technical cooperation programs in Latin America and $1.5 millions for the program of the OAS for fiscal year 1955. Funds in the amount of $9 millions to continue the economic grant program to Bolivia have also been requested.

The Congress is considering the appropriation of $1,000,000 for the Inter-American Highway and $1,000,000 for the Rama Road in the regular appropriation for fiscal year 1955, and a request will also be made to the Congress for the supplemental appropriation of $5,000,000 for the Inter-American Highway. In April the Congress, in the Federal Aid Highway Act of 1954,[30] authorized a total of $40,000,000 in addition to the sums heretofore authorized for the Inter-American Highway. Likewise an additional $4,000,000 was authorized by the Congress to be appropriated to complete the Rama Road.

7(d) Improving Trade Outlook for Latin American Export Commodities—The United States has done little during the period under review to facilitate sales of Latin American products in the U.S. Our overall relations with Argentina have definitely suffered as a result of U.S. trade restrictions and U.S. agricultural surplus disposal programs.

Chile's copper export problem was relieved materially by the U.S. agreement to purchase 100,000 short tons of copper at current world prices. Stocks of about 80,000 tons remain unsold, however.

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[29] Additional information on the following loans granted by the Export-Import Bank is included in the documentation concerning United States relations with Argentina, Brazil, Chile, Cuba, Colombia, Mexico, and Uruguay.

*Approved in principle but credit not yet formalized. [Footnote in the source text.]

†Authorized but not yet announced, since final negotiations have not been completed. [Footnote in the source text.]

[30] Public Law 350, approved May 6, 1954; for text, see 68 Stat. 70.

Uruguay's wool tops may now enter the U.S. under a countervailing duty of only 6% in place of 18% as a result of a recent Department of the Treasury decision to reduce the duty. Imports of tops have been very small since the duty was first imposed last year, and it is doubtful that the duty adjustment will provide any great stimulus.

Bolivia has been informed that barring Congressional action to extend the operations of the Texas City Smelter, the U.S. is not interested in purchasing additional tin ores from Bolivia at the present time.

Argentina has suffered from the imposition by the U.S. in December of an import quota on oats which bore most heavily on Argentina and required cancelation of existing contracts. Imposition of a quota on imports of tung nuts and oil, now under consideration, would also be a matter of serious concern to Argentina and Paraguay. Contemplated restrictions on the importation of rye would also limit Argentina's markets.

Argentina, and other Latin American exporters of grain and dairy products, have expressed grave concern lest the expanded U.S. surplus disposal program[31] now under consideration endanger their export markets.

One favorable development in the Latin American export picture is the increase in coffee prices, which may net the coffee exporting countries a billion dollars or more in excess of their returns from that product last year. About two-thirds of this will be dollar exchange. Latin America's exports to the U.S. in 1953 were valued at $3.4 billions of which about $1.5 billions represented sales of coffee. An increase of a billion dollars, distributed among sixteen countries, would bring material improvement in Latin America's capacity to finance its own economic development.

8. *Monetary Stabilization and Fiscal Reforms*—Early in 1954 *Peru* requested a loan from the United States Treasury for the purpose of halting the decline of the sol. Heavy government investment in development projects, declining prices for its exports, and undiminished demand for imports resulted in pronounced weakness in the exchange value of the sol during the last six months of 1953 and early 1954. The Peruvian Government, in the belief that the sol had declined beyond its true value as the result of speculation and undue pessimism, sought financial aid from the U.S. Government, the International Monetary Fund and private institutions to restore confidence in the sol.

Recognizing that Peru's basic economy was sound, that anti-inflationary measures had been introduced in recent months, and that the decline of the sol had fostered strong internal criticism of Peru's liberal trade and monetary policies, the United States Treasury made a $12½ millions stabilization loan to Peru.[32] The IMF granted Peru a like amount, while Chase National Bank provided $5 millions. As a result of these loans Peru announced its determination not to reestablish exchange and trade controls, and to continue its liberal trade and monetary policies as the best means to foster foreign private investment and economic development.

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[31] For documentation on this subject, see volume I.

Chile, in October 1953, declared to the IMF a new par value of 110 pesos to the dollar in place of the former par rate of 31 pesos which was accepted by the IMF. Chile applied late in 1953 for a drawing of $25 million from the IMF but was granted only $12.5 million. In addition the Government borrowed $12.5 million in December 1953 from the National City Bank to meet Government year-end obligations. In spite of this the financial situation is deteriorating rapidly. Through 1953 living costs increased at the rate of about 4½% a month, and the free market rate for the peso continues to deteriorate. Partly to strengthen the Chilean economy and to obtain improved treatment of U.S. copper companies operating in Chile, the U.S. agreed to purchase 100,000 short tons of Chilean copper at the market price for the strategic stockpile. The Chilean Government, on its part, has introduced legislation providing more favorable tax rates for the American copper companies and authorizing them to use the free bank rate of 110 pesos per dollar instead of the present rate of 19.37 pesos for conversion of dollars spent in Chile to cover costs of producing copper. The measure would also return to the companies a greater degree of control over sales, which would help us prevent diversion to the Soviet bloc.

At *Costa Rica's* request FOA sent a tax consultant to that country temporarily to assist in a proposed revision of the tax system and plans to furnish one on a permanent basis at a later date.

Argentina is not a member of the International Bank (IBRD) or the International Monetary Fund. The President of the Bank [33] and several assistants recently made an informal visit to Argentina,[34] and conversations with Argentine officials left the impression that Argentina had some interest in joining the Bank but had reservations about subjecting itself to the control of the International Monetary Fund.

The IBRD has assigned a permanent representative to *Panama* to assist that Government in carrying out fiscal and economic reforms which the Bank has recommended.

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[32] For text of announcement by Secretary Humphrey, dated Feb. 18, 1954, concerning the signing of a stabilization agreement between the United States and Peru, see *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1954* (Washington, 1955), p. 289.

[33] Eugene R. Black.

[34] Presumably a reference to Mr. Black's visit to Argentina, Mar. 14–17, 1954, as part of a larger tour by a group of IBRD representatives to ten Central and South American countries (Argentina, Brazil, Costa Rica, Ecuador, Honduras, Nicaragua, Panama, Peru, El Salvador, and Uruguay); documents relating to the tour are in file 398.14.

On April 17, the *Mexican Government* announced a change in its monetary exchange rate from 8.65 to 12.50 pesos to the dollar. The International Monetary Fund concurred in the action. The United States Stabilization agreement with Mexico remains in force.

Information and Related Activities

9. In view of the reduction in funds available for the information program in Latin American reported in the Second Progress Report, programs in the smaller countries have been reduced to the minimum while those in the larger countries are now operating on a more restricted basis. Reprogramming is taking place to direct the limited resources available at only the most critical psychological problems and to selective groups for maximum impact.

Steps are well advanced toward instituting effective information and educational exchange programs in dependent areas in the *Caribbean*, particularly British Guiana and British Honduras.

Continued attention to the *Bolivian* problem in conjunction with the aid program discussed above appears to have achieved positive results in the form of recognition of communist danger to Bolivia and the gradual change in position of the Bolivian Government, with the backing of reputable information media in the country, to a stronger public anti-communist position.

Increased anti-American sentiment in *Brazil*, the deteriorating political situation, coupled with increasingly effective communist activities, have been the occasion for making increased information facilities available in that country and work is under way to provide materials especially designed to promote a better understanding of the U.S. economic policy vis-à-vis Brazil.

The Soviet effort to purchase *Chilean* copper, and delay in reaching an agreement for the purchase of 100,000 tons of that copper, created a serious psychological problem not only in Chile but in other countries of Latin America where the Soviets are playing heavily and effectively on the theme of increased trade with Iron Curtain countries. Our ability to deal with this problem was limited because of delicate negotiations which made it impossible to present the facts and state our position to the Chilean people without a serious clash with high officials of the Chilean Government. As a result the U.S. position was widely misunderstood.

Efforts are being made through the information program and diplomatic channels to discredit and possibly force cancellation of forthcoming communist sponsored youth festivals in Chile [35] and Guatemala [36] and the Conference of American Women in Rio de Janeiro.[37]

Some effective work was done in connection with staving off attempted communist infiltration of the Second Congress of Latin American Universities.[38] Because of budgetary limitations the exchange of persons program was able to bring to the United States only about 158 persons from the Latin American area which compared to approximately 1,000 who went to Iron Curtain countries under the auspices of communists in 1953.

Beyond normal anti-communist activities carried on in all countries, special attention was given to the situation in Guatemala and its effects in other countries of the hemisphere. With the "discovery" by the Guatemalan Government of the alleged "plot" to overthrow that Government in January, and the expulsion of journalists and radio commentators from the country, effective work was accomplished in identifying the Government with communist objectives. Senator Wiley's [39] speech given on January 14,[40] was particularly effective in forming opinion among responsible people in Latin America. Despite these and other efforts, however, Guatemalan propaganda efforts played on old alleged wrongs and raised doubt in the minds of Latin American officials and private citizens as to United States motives regarding Guatemala. Many believe that the U.S. (1) is interested principally in pushing claims of the United Fruit Company and (2) is overly concerned with communism in Latin America despite efforts of the information program to meet these two problems. Communist-front "Friends of Guatemala Societies" were established in a number of countries and little headway was made in discrediting these organizations.

Plans are under way to create among the people of Latin America a better understanding of the U.S. economic system particularly in view of the forthcoming economic conference in Rio de Janeiro, because a lack of understanding of U.S. economic policy is one of the most serious causes for lack of improvement in U.S.-Latin American relations.

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[35] Apparent reference to a meeting of the *Federación Mundial de la Juventud Democrática* (World Federation of Democratic Youth), scheduled to convene in May in Santiago; documentation relating to the meeting is contained in file 720.001 for 1954.

[36] Apparent reference to a meeting of the Friendship Festival of Youth and Students of Central America and the Caribbean, originally scheduled to convene in Guatemala City in October, but rescheduled to open in Santiago in January 1955; pertinent documents are in file 720.001 for 1954 and 1955.

[37] Reference is to the Latin American Conference of Women, which met in Rio de Janeiro, Aug. 27–30, 1954; a report on the results of the conference is contained in despatch 265, from Rio de Janeiro, dated Sept. 13, 1954, not printed. (720.001/9–1354)

[38] The referenced congress convened at Santiago, Nov. 23–Dec. 4, 1953; a report on the results of the meeting is contained in despatch 38, from Santiago, dated Dec. 21, 1953, not printed. (398.43 SA/12–2153)

[39] Alexander Wiley (R.–Wis.), Chairman, Senate Committee on Foreign Relations.

[40] Apparent reference to remarks concerning Guatemala made by Senator Wiley on the Senate floor; for text, see *Congressional Record*, 83d Cong., 1st Sess., vol. 100 (pt. 1), pp. 248–250.

The Eisenhower Report was given heavy attention throughout the area with reaction uniformly good but anticipation continued regarding its implementation.

A number of cultural events in the U.S. were heavily exploited for the purpose of emphasizing our continued interest in Latin America and the cultural maturity of the U.S.

Action was taken during and after the Caracas Conference, to make the U.S. position better known in Latin America and to create an atmosphere favorable to the adoption and implementation of an anti-communist resolution with some evidence of effectiveness.

Military

Military Assistance Program: The Executive Branch has requested the Congress to appropriate an additional $13 millions for grant military assistance to Latin America for fiscal year 1955. In addition, unexpended balances from appropriations which for fiscal years 1952–54 totaled approximately $101.9 millions would be continued available, if the request is approved.

A military assistance agreement was signed with Nicaragua on April 23, 1954 [41] making a total of nine Latin American countries with which the United States has such agreements. Negotiations with Honduras for a similar agreement were planned for early May.[42] El Salvador has indicated some interest in an agreement but is reluctant to consider negotiations until after the May national elections.[43]

Cuba and Uruguay have not made local currency available to establish MAAGs in those countries. Equipment is being sent to Cuba, however, where United States Armed Services missions are handling the program. Only Air Force equipment is being sent to Uruguay, where an Air Force mission is maintained. Navy equipment will be sent when United States naval personnel are on hand to receive it. Shipments valued at $24.6 millions, as of January 31, 1954, have been made to the countries participating in the program, except Nicaragua.

The Department of Defense proposed, and the Department of State concurred on February 16 in a recommendation, that Haiti be included in the program, but the recommendation has not been sent to the President for the necessary finding of eligibility under the Mutual Security Act [44] pending formal approval by the Department of Defense.

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[41] For text of the military assistance agreement between the United States and Nicaragua, signed at Managua, Apr. 23, 1954, and entered into force on the same date, see TIAS No. 2940 or 5 UST 453.

[42] A military assistance agreement between the United States and Honduras was signed at Tegucigalpa, May 20, 1954, and entered into force on the same date; for text, see TIAS No. 2975 or 5 UST 843.

[43] No military assistance agreement between the United States and El Salvador was signed in 1954.

[44] Of 1951.

16. In pursuance of the policy of assisting "in the protection of sources and processing facilities of strategic materials" military staff discussions with Venezuela are still under consideration. Prospects for successful military staff discussions with Venezuela have dimmed again with a decision by that country to purchase French rather than United States tanks for its Army. It appears likely that this decision was as much the result of graft as pique over United States prices, delivery and credit terms.

18*a*. United States participation and leadership in the activities of the Inter-American Defense Board have been impaired as a result of the inability of the United States to furnish classified information to an international organization whose membership includes Guatemala. The most recent instance of this was a decision by the State-Defense Military Information Control Committee which declined to approve the release of classified information which was to be used by the Board for a defense estimate of the situation. Such an estimate is considered essential prior to consideration of a revision of the general military plan.

Haiti and Nicaragua have approved the General Military Plan for the Defense of the American Continent. Other countries which have approved the plan are Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Honduras, Peru, United States and Uruguay.

The Chairman of the Board, Lieutenant General Howard A. Craig (USAF) has completed a series of visits[45] to each Latin American country to discuss with local defense officials activities of the Board and to encourage more active support of the Board and its work.

A new Combined Board on Defense, Brazil-United States is to be established as soon as a decision is made by the United States as to whether foreign office representatives of the two governments are to be members of the Board. The Board would meet annually, alternating between Washington and Rio de Janeiro. It would make recommendations on defense plans of concern to the two governments and coordinate the work of the Joint Brazil-United States Military Commission in Rio de Janeiro and the Joint Brazil-United States Defense Commission in Washington.

18*b*. During the period under review the following Army, Navy and Air Force Mission Agreements were extended: Chile, Air Force; El

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[45] Between Nov. 17 and Dec. 5, 1953, Lieutenant General Craig visited Argentina, Bolivia, Brazil, Chile, Paraguay, Peru, and Uruguay; pertinent documents are in file 397.5 IA.

Between Feb. 15 and Mar. 2, 1954, he visited Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panamá, and Venezuela; pertinent documents are in file 711.5820.

Salvador, Air Force;[46] Honduras, Army and Air Force. An Army Mission Agreement was signed with Nicaragua and a Mission established in that country.

Extensions of the following Agreements are being negotiated: Bolivia, Air Force; Brazil, Navy; Colombia, Army, Navy and Air Force; Ecuador, Army and Air Force; Mexico, Air Force; Paraguay, Army and Air Force and Peru, Army.

Extensions of the Army and Navy Mission Agreements with Bolivia and Venezuela, respectively, are being considered by the appropriate Armed Service. The status of Army and Air Force Missions in Guatemala is under review but for the present remains the same.

18*d.* Colombia continues to be the only Latin American country participating "in the United Nations action in Korea." Legislation which would permit the President to settle at less than full reimbursement logistical support bills of countries with forces in Korea, including Colombia's bill which is now approximately $11.5 millions has been prepared but has not been submitted to the Congress because the Department of Defense has not concurred and there is some doubt as to the advisability of submitting the legislation at this time. In the meantime, no action is being taken to settle Colombia's bill which remains unpaid.

18*e.* In pursuance of the policy of "ultimate standardization" of military equipment in Latin America along United States lines, fifteen jet and six support aircraft of the United States Air Force visited the following Latin American countries during the period January 16–February 14, 1954: Argentina, Brazil, Chile, Cuba, Dominican Republic, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela. Defense officials of countries not visited attended the demonstrations in the Canal Zone.

The tour was warmly received, was highly successful and appears to have created a greater respect for United States defense capabilities and our leadership in the free world. Reports have all been laudatory of the jet demonstrations and the conduct of the Air Force personnel making the tour indicating that it materially enhanced the prestige of the United States Air Force Missions and other personnel of the Air Force in Latin America and created a favorable impression in Latin America of the United States Air Force. An estimated 2,500,000 Latin Americans witnessed the demonstrations which were staged in all countries visited by the jets. Latin American newspaper coverage was extensive and favorable, evidencing a genuine friendship for the United States and the effectiveness of United States Information Agency operations in Latin America. Communist efforts to discredit the tour were singularly unsuccessful.

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[46] For text of the exchange of notes, signed at San Salvador, Dec. 2, 1953, and Mar. 11, 1954, and entered into force on the latter date (operative retroactively to Dec. 31, 1953), extending the agreement of Aug. 19, 1947, providing for the services of a U.S. military aviation mission to El Salvador, see TIAS No. 2933 or 5 UST 416.

As a result of the tour Colombia has purchased six T-33 jet trainer aircraft and other Latin American countries have expressed an interest in purchasing United States jet aircraft. But as a general matter efforts to further standardization have met with further setbacks, significant instances being the purchase of French tanks by Venezuela and British jets by Chile. Approval of pending legislation should help solve the problem of better credit terms and consideration is being given to revising procedures for processing reimbursable assistance requests because existing procedures appear to be a contributing factor to the present unsatisfactory situation.

C. POLICY CONSIDERATIONS

The existing policy appears to be satisfactory and to require no revisions at this time. The Department of Defense is, however, concerned over the implementation of the policy with respect to the Inter-American Defense Board (paragraph 18*a.*) and standardization (paragraph 18*e*). That Department believes United States leadership in the Inter-American Defense Board is impaired as a result of our inability to furnish classified information to the Board while Guatemala is a member. The Department of Defense is also concerned over continued substantial purchases of military equipment from non-United States sources which adversely affect efforts to standardize military equipment in Latin America. A study of these two problems is suggested by the Department of Defense.

D. EXTENT OF AGENCY INTERESTS

The following agencies are informed of national policy on Latin America by having copies of NSC 144/1 furnished to them:

> State, Defense, Foreign Operations Administration, Treasury, Office of Defense Mobilization, Central Intelligence Agency, and Bureau of the Budget.

The following agencies participated in the preparations for the Tenth Inter-American Conference and/or were represented on the United States Delegation to the Conference:

> State; Treasury; Defense; Justice; Interior; Commerce; Agriculture; Labor; Health, Education and Welfare; United States Information Agency; Foreign Operations Administration; Export–Import Bank; Housing and Home Finance Agency; Tariff Commission and Federal Reserve Board.

The decision to purchase copper from Chile was made by the Office of Defense Mobilization.

Action on control of subversive activities is based in part on information furnished by the Central Intelligence Agency.

Action on control of the shipment of strategic materials is the responsibility of the Foreign Operations Administration which also administers the bilateral and technical cooperation program.

Shipping, aviation and communication matters are of interest to the Department of Commerce, Civil Aeronautics Authority and Federal Communications Commission, respectively.

Any financial matter reported on is of concern to those agencies which are members of the National Advisory Council.

The section in this report on information and related activities has been discussed with the United States Information Agency.

The military section of this report was made available in draft to the Department of Defense and through it to the three Armed Services. Their comments were taken into consideration in the report.

E. EMERGING PROBLEMS AND FUTURE ACTIONS

The principle emerging problems or those which may require future action are receiving consideration by the appropriate agencies.

The serious economic situation in Bolivia appears to be somewhat ameliorated but is by no means solved and requires very careful watching. While our purchase of Chilean copper should give Chile a breathing spell, heroic measures are required to correct the deteriorating economic situation in that country and it is doubtful that the present administration there will cope effectively with the problem.

Communism continues to be a threat to the security of the hemisphere. While it constitutes a problem in most of the countries of the hemisphere it is particularly serious in Guatemala and the focus of communism in that country, if not actually responsible for is at least materially contributing to, the unsettled political situation in Central America. The political situation in Brazil continues to be uneasy because of a not too satisfactory economic situation which is being capitalized on by the communists in their current strong bid for official status in that country.

The forthcoming economic conference at Rio de Janeiro in the fall will require a series of decisions on our economic policy.

F. SPECIAL ANNEXES

There is attached as an annex to this report a "Brief Report on the Tenth Inter-American Conference." [47]

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[47] Not printed.

Editorial Note

In a memorandum to Mr. Bowie, dated June 15, 1954, not printed, Mr. Halle stated that shortly after the Tenth Inter-American Conference at Caracas in March 1954, the National Security Council had raised the question with the Department of State whether a revision of NSC 144/1 was in order, and that the Department, on the recommendation of the Bureau of Inter-American Affairs, had at the time advised that a revision was unnecessary. Mr. Halle further stated that a revision would now be "desirable" because it could take into account Dr. Milton Eisenhower's report to President Eisenhower on United States-Latin American relations and studies concerning Latin America prepared in the Department since the adoption of NSC 144/1. (S/P–NSC files, lot 61 D 167, NSC 144/1)

At a meeting on June 15, 1954, the NSC Planning Board discussed the possible preparation of a revision of NSC 144/1, and agreement was reached that such revision should be undertaken during late July or August, on the basis of draft recommendations to be submitted by the Department of State. Drafts of proposed revisions were considered at NSC Planning Board meetings on August 9, 12, and 16, 1954. On the latter date, the Planning Board adopted a draft of amendments to NSC 144/1, and approved its submission, as revised, to the National Security Council for consideration. The amendments were incorporated into NSC 144/1, and subsequently submitted to the Council as NSC 5432, not printed, under date of August 18, 1954. (S/P–NSC files, lot 62 D 1, Records of NSC Planning Board meetings) For the text of NSC 144/1, see page 6.

S/S-NSC files, lot 63 D 351, NSC 5432 series

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Smith) [1]

TOP SECRET [WASHINGTON,] August 31, 1954.

Subject: Briefing for Council Meeting on NSC 5432 "United States Policy Toward Latin America",[2] Thursday, September 2, 1954

There are three main points at issue in this paper to which I would like to call your attention.

1. *Trade Policy*—The paper as now proposed states that the U.S. should adopt stable, long-term trading policies with respect to Latin American countries including gradual selective *reduction* of U.S. bar-

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[1] Drafted by Mr. Cale and Norman M. Pearson of the Bureau of Inter-American Affairs.

[2] Not printed, but see the editorial note, *supra*, and footnote 3, *infra*.

riers and tariffs on trade. There is some possibility that the Treasury representative may wish to change this to gradual selective "revision", that being the word used in the President's message to Congress on foreign economic policy. The whole context of the President's message establishes that by "revision" he meant "reduction" and not simply change upward or downward. Maintenance of stable trade relations is the most important single factor in our total relations with Latin America. It was Dr. Eisenhower's No. 1 recommendation regarding economic cooperation.

2. *Loan Policy*—The paper as now proposed would state that the U.S. should be prepared to assure the financing of *all* sound economic development projects, for which private capital or IBRD financing is not available, through Export–Import Bank loans, subject to certain specified conditions. The Treasury representative is likely to urge that this be changed to "assist in the financing of" such projects. I hope that you will vigorously oppose the Treasury viewpoint, especially since this is the one instance in which it may be possible for us to make any significant advance of position at Rio over that which we took at Caracas. It is estimated that loans meeting the very strict criteria, which are enumerated on page 1 and also in paragraph 9*b* on page 8 of the document, will not amount to more than $200 million per year, on the average. In my judgment it is imperative to the success of the Rio Conference that we positively assure either that (1) we will finance *all* loans meeting those standards, or (2) that we will do so up to some such figure as $1 billion over the next five years.

3. *Stockpile Policy*—FOA and ODM have proposed an addition to the statement which would broaden the present stockpile policy to permit acquisition of non-deteriorating reserves beyond the present strategic reserves for strictly defense uses. In view of the importance of minerals production to the Latin American countries and of the adverse effect which decreased stockpile purchases will have on them, we believe that NSC should study this matter in all of its ramifications, but do not recommend approval of the ODM–FOA proposal in its present form.

Our positions relating to the other parts of the proposed paper are outlined in Tab A.[3] The EUR position relating to Canada is stated in Tab B.[3]

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[3] Not printed.

Eisenhower Library, papers as President, Whitman file, NSC records

Memorandum of Discussion at the 212th Meeting of the National Security Council on Thursday, September 2, 1954 [1]

TOP SECRET EYES ONLY

Present at this meeting were the Vice President of the United States,[2] presiding; the Acting Secretary of State; the Acting Secretary of Defense; the Director, Foreign Operations Administration; and the Director, Office of Defense Mobilization. Also present were the Acting Secretary of the Treasury; the Acting Attorney General (for Item 1); Assistant Secretary Anderson for the Secretary of Commerce (for Item 3); the Director, Bureau of the Budget; Assistant Secretary of State Holland (for Items 2 and 3); Assistant Attorney General Tompkins (for Item 1); the Chairman, Joint Chiefs of Staff; the Acting Director of Central Intelligence; Robert Cutler, Special Assistant to the President; Robert R. Bowie, Department of State; the NSC Representative on Internal Security (for Item 1); the Acting Executive Secretary, NSC; and the Coordinator, NSC Planning Board Assistants.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion concerning organizational arrangements for internal security and also significant world developments affecting United States security.]

3. *U.S. policy toward Latin America* (NSC 5432;[3] NSC 5419/1;[4] NSC 144/1; Annex to NSC 144)

Mr. Cutler briefed the Council on the background and content of NSC 5432. He pointed out that the Planning Board had intensively reviewed a March 1953 statement of policy toward Latin America (NSC 144/1) in the light of recent developments. In this review the Planning Board had had two basic objectives in mind: (1) to recommend the additional U.S. efforts needed to strengthen the hemisphere against extra-hemisphere infiltration and to reverse those trends which offer opportunities for Communist penetration, and (2) to recommend decisions which should be taken in order that the U.S. might have an effective position at the economic conference in Rio on November 22.

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[1] This memorandum was drawn up by the Coordinator of the NSC Board Assistants, Marion W. Boggs, on Sept. 3.

[2] Richard M. Nixon.

[3] The text of the draft statement of policy designated NSC 5432, dated Aug. 18, 1954, is identical to that of NSC 5432/1, dated Sept. 3, 1954, p. 81, with the exception of the amendments adopted as a result of this meeting, and additional amendments to paragraph 9, sections (*b*), (*c*), and (*g*) adopted subsequently at the 224th meeting of the National Security Council, held Nov. 15, 1954. The additional amendments are explicated in footnote 2, p. 83.

[4] NSC 5419/1, titled "United States Policy in the Event of Guatemalan Aggression in Latin America", dated May 28, 1954, is printed on p. 1135.

Mr. Cutler asked the Council to look first at a provisional draft of the Financial Appendix[5] on Latin America circulated at the meeting (copy filed in the minutes of the meeting). He read the totals in Table I, and called attention to some of the principal items of expenditure, such as technical assistance and military assistance.

The Vice President, referring to page 9 of the Financial Appendix, noted that under the educational exchange program only 165 grants were made in FY 1954. He asked whether this was the total for all of Latin America. Mr. Cutler replied in the affirmative, but called attention to the fact that the State Department provides grant-in-aid to the American Council on Education to help American-sponsored schools in Latin America. The Vice President said he felt it was important to do a great deal more in the educational exchange field.

Mr. Cutler then read the "Major Points in Proposed Revision of NSC 144/1" (pages 1–3 of NSC 5432).[6] He noted that Assistant Secretary of State Holland was present at the meeting as Chairman of the Interdepartmental Cabinet Committee preparing for the Rio conference. Mr. Cutler said he had also received the views of the Joint Chiefs of Staff (copy[7] filed in the minutes of the meeting), who were in general agreement with NSC 5432 subject to certain suggested changes which could be taken up during the Council's paragraph-by-paragraph consideration of the paper.

Finally, Mr. Cutler said he had requested and had just received Dr. Milton Eisenhower's comments (copy[8] filed in the minutes of the meeting), which he read to the Council.

Secretary Smith said he would like to start the discussion by relating an Army experience. He once knew a Colonel who issued a great many detailed orders, and who always ended with a paragraph which said "This order will be obeyed." Secretary Smith felt that NSC 5432 contained an adequate U.S. program toward Latin America provided it is carried out. In other words, it is a good order, but the order must be obeyed. In the past our performance in Latin America, particularly in economic matters, has been largely verbal. The Rio conference will be an economic conference pure and simple, and we must follow it up with adequate performance.

The Vice President asked who would represent us at Rio. Secretary Smith said we would be represented by a strong contingent, and he would be glad to give the Vice President a complete roster of the delegation.[9] He said that trade, government credit, and price stabilization would be the principal topics at Rio, and that if we handled these matters properly we had an opportunity to improve our relationships with the countries of Latin America. Secretary Smith said that Mexico was a case in point. Our relations with Mexico had been very bad until recently, but were now improving as a result of four developments: (1) Mexican public opinion had reacted strongly against the Mexican Government's stand on the anti-Communist resolution at Caracas; (2) Mexican public opinion had reacted strongly against currency devaluation; (3) the International Bank had recently made loans to Mexico which were interpreted in that country as indicating a friendly U.S. attitude; and (4) the President had decided to reject an increase in the tariff on lead and zinc.[10] Secretary Smith said he had talked about Mexico to show that a relatively small number of actions by the U.S. could produce a change in our relations with another country. He felt that if NSC 5432 were adopted and implemented it would produce favorable reactions throughout the hemisphere. But, he added, the paper must be implemented; that is, the order must be obeyed.

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[5] The referenced draft Financial Appendix, dated Aug. 31, 1954, which contains estimated cost figures for financing the implementation of the policies proposed in NSC 5432, is not printed; no copy was found with the source text, but a copy is contained in S/P–NSC files, lot 61 D 167.

[6] The "Major Points in Proposed Revision of NSC 144/1", not printed, are omitted from NSC 5432/1.

[7] Not found with source text. The Joint Chiefs of Staff expressed their views in a memorandum, signed by Chairman Radford, to the Secretary of Defense, dated Aug. 31, 1954. (JCS files, 381–Western Hemisphere)

[8] Not found with source text.

Turning to paragraph 4–*b*,[11] Secretary Smith noted that there was a difference of opinion as to whether economic development in Latin America should be "accelerated". He regarded the word "accelerated" as misleading, because Latin America had gone through an enormous acceleration of its economic development since the war, and it might be impossible to accelerate this development any more.

Governor Stassen said that FOA had joined with ODM in proposing the word "accelerated". He would not insist upon any particular word in this paragraph, but he did want to state at this point his general views on economic development in Latin America. FOA, he continued, is in the position of being more directly concerned than some other departments with the economic outlook in Latin America. He considered the Latin American situation serious and our program to meet it inadequate. He cited the following as factors which led him to conclude that the situation is serious:

1. The population in Latin America is growing at the rate of 2½% per year (one of the highest rates in the world), but gross national product is increasing at a rate of only 1% per year in an area where the standard of living has always been very low.

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[9] A list of the members of the U.S. Delegation to the Rio Conference is printed in the Department of State *Bulletin*, Nov. 29, 1954, pp. 837–838.

[10] Documentation on this subject is included in volume I.

[11] The text of the referenced paragraph reads as follows: "An orderly political, military, and [an orderly, accelerated] economic development in Latin America so that the states in the area will be more effective members of the hemisphere system and increasingly important participants in the affairs of the free world." The text indicates that the bracketed alternative language was an "FOA and ODM proposal".

2. The rate of capital investment in Latin America is too low; indeed, there has been a net outflow of capital from the area in the past year, a development which has multiplied inflationary pressures.

On the basis of these factors Governor Stassen concluded that an explosive situation was developing in Latin America. He thought we were in a rut with respect to that area; that is, we never seem to make any dramatic moves there. We had greatly improved the situation in Iran by the expenditure of a modest sum of money,[12] and Governor Stassen thought similar action was urgently needed in Latin America to check inflation, attract capital, and build confidence in the future. The courses of action in NSC 5432 were good, but inadequate. Governor Stassen wished to refer particularly to Export–Import Bank loans and International Bank loans to Latin America. He said that from February 1953 to the present, Export–Import Bank loans to all of Latin America had totalled only $35 million. The tragic inadequacy of such loans indicated to him that we must shake off our lethargy and really do something. He felt the Rio conference would be the time to act.

The Vice President asked how the $35 million in loans to Latin America compared with other areas of the world. Governor Stassen replied that this total was below that for other areas, both absolutely and relatively. He added that the argument was sometimes made that capital would be invested in Latin America if a "favorable climate for investment" existed. He agreed that a favorable climate was necessary, but thought it could only be created by U.S. governmental action. Although such action would cost money, it would be a good investment in terms of realizing our objectives in Latin America. Governor Stassen said he was willing to drop the FOA proposal in paragraph 4–*b*, but wished to emphasize again that U.S. economic policy toward Latin America must be reversed.

Secretary Smith said his views in general were in accord with those of Governor Stassen. However, he was compelled to differ with Governor Stassen on several points, including the question of procedure. For example, he felt the tactics which had been successful in Iran could not be applied to Latin America. Moreover, he felt Congress would not appropriate enough funds for a large economic aid program. Governor Stassen was inclined to think that Congress would appropriate funds for Latin America more readily than for any other area in the world. Mr. Hughes said he was convinced that the U.S. could not afford to substitute government aid and capital for private investment. He was sure the recent flight of capital from Latin America was due to restrictions and fear in that area. He felt that private investment would flow into Latin America if a favorable climate for investment could be created. Governor Stassen said it would be impossible, in his view, to change the present "climate" in Latin America without U.S. Government action. He agreed that if the climate were changed as a result of U.S. public funds, then private capital would be attracted to the area.

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[12] For documentation concerning U.S. relations with Iran, see volume x.

Dr. Flemming called attention to the serious economic situation which might be created in Latin America by a cessation of stockpile purchases.[13] He recalled that a year ago the Council had been very much disturbed by the situation in Bolivia when we found that we could not buy any more tin. Bolivia was now the only country in Latin America receiving economic assistance, but other countries might be in the same position when the U.S. reached its stockpile objectives. He suggested that we should prepare now for the time when Latin American countries will lose their stockpile market in the United States. Otherwise we would be under heavy pressure for economic aid or continued stockpile purchases beyond our needs.

The Vice President asked what issues at the Rio conference required U.S. decisions at the present time. Secretary Smith said that NSC 5432, if approved, would provide an adequate basis for the U.S. position at Rio. He then summarized the issues expected to arise at the Rio conference, as follows:

1. The problem of trade barriers is most important. If we can convince Latin America that our policy is gradual selective reduction of trade barriers, Latin America will be satisfied.
2. Latin Americans are very much concerned about our loan policy, and we must convince them that we will adopt a more liberal policy than we have followed in the past. There is no great demand for a grant-aid or soft-loan [14] program, but the State Department would like to have authority to make soft loans in case the need for them arose. The Vice President asked whether State would also like authority to provide grant aid. Secretary Smith said yes, in small amounts to meet emergencies.
3. Price stabilization—that is, the establishment of minimum prices for Latin American exports—might be demanded at Rio. However, we would not incur much ill will by refusing to agree to price stabilization, since our probable refusal to agree is already well understood in Latin America.
4. Latin Americans want continued technical assistance, and we should be able to satisfy them on this point.

Secretary Smith then called attention to paragraph 5-*i*,[15] which provided for encouraging the incorporation of Canada into the Organization of American States. He felt that Canadian membership would not be an unmixed blessing. Consequently, he proposed that the paragraph be deleted or, alternatively, be revised to indicate that we would have a receptive attitude toward a Canadian desire to join the OAS. The Vice President suggested that if we didn't want Canada in the OAS it would be preferable to delete the paragraph.

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[13] For documentation concerning U.S. policy with respect to stockpile purchases, see volume I.

[14] Loans repayable in local currency rather than in dollars.

[15] The text of the referenced paragraph reads as follows: "Encouraging the incorporation of Canada into the Organization of American States."

Secretary Overby expressed great concern with respect to paragraph 9–*a*,[16] which provided for gradual selective reduction of U.S. barriers and tariffs on trade. He said this was the first policy statement which came out flatly for gradual and selective reduction without any qualification. The President's message[17] on the Randall Report[18] had used the word "revision", not "reduction", and had asked for authority to reduce tariffs in accordance with the Reciprocal Trade Agreement Act.[19] In the light of the President's message, Secretary Overby felt that we should qualify gradual selective reduction by the phrase "pursuant to the trade agreement program and established practice."

Secretary Smith said he favored paragraph 9–*a* as written because gradual selective reduction was what we wanted. He felt the President wanted a reduction of tariff barriers, and he was reluctant to add qualifications to the policy of reduction.

In response to an inquiry from Mr. Cutler, Secretary Holland said that the Interdepartmental Cabinet Committee had studied trade barriers for a long time, and had reached the conclusion that the U.S. could not carry out its policies in Latin America unless the countries of the area believed we would permit them to trade with us. He felt that the reduction of barriers to hemisphere trade was the single most important point in our policy.

Secretary Overby said that paragraph 9–*a* went farther than the President's message, and that his amendment was designed to include by implication the qualifications of the President's message.

The Vice President said we should shake ourselves out of our lethargy and make a bold statement. He added that of course we would follow established practices and the statutes, but he preferred paragraph 9–*a* as written. Mr. Cutler said the Planning Board deliberately made the paragraph blunt in order to raise the issue. The Vice President suggested that the Council might adopt paragraph 9–*a* as written and then call the President's attention to any differences between it and his message.

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[16] The text of the referenced paragraph reads as follows: "Adopt stable, long term trading policies with respect to Latin American countries, including gradual selective reduction of U.S. barriers and tariffs on trade."

[17] Reference is to President Eisenhower's special message to Congress, dated Mar. 30, 1954, and transmitted to the Congress on the same date; for text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954*, pp. 352–364; or Department of State *Bulletin*, Apr. 19, 1954, pp. 602–607.

[18] Commission on Foreign Economic Policy (Randall Commission, after its chairman, Clarence B. Randall), *Report to the President and the Congress* (Washington, 1954). For additional information about the report, see documentation concerning U.S. foreign economic policy in volume I.

[19] For text of the Act to amend Title III of the Tariff Act of 1930, commonly referred to as the Reciprocal Trade Act of 1934 (Public Law 316), approved June 12, 1934, see 48 Stat. 943.

For text of the Tariff Act of 1930 (Public Law 361), approved June 17, 1930, see 46 Stat. 590.

Assistant Secretary of Commerce Anderson expressed some anxiety about the broad language in paragraph 9–*a*. For example, he felt it might be interpreted as a mandate for raising the Peruvian sugar quotas, a problem which would soon come up. The Vice President said the paragraph had built-in escape clauses, such as "selective" and "gradual". We talk a good game, he added, but we don't do much, and if we make errors we should make them on the side of vigorous action.

Secretary Smith said he favored the paragraph as written because he needed all the ammunition he could get when he started discussions with the Bureau of the Budget and the Treasury Department.

Mr. Cutler summarized the decision of the Council by saying that paragraph 9–*a* would remain unchanged but would be brought to the President's attention as suggested by the Vice President.

Mr. Cutler then called attention to the alternative versions of paragraph 9–*b*.[20] He said the majority of the Planning Board wished to "assure the financing of all sound economic development projects", while Treasury wished to "assist in the financing of" such projects. Secretary Overby said that under the statutes and established practice, the Export–Import Bank could only participate in financing such projects. He felt the paragraph went far beyond Export–Import Bank practice and policy, and he had taken the liberty of speaking to General Edgerton, who would prefer that the paragraph read "assure participation in the financing".

Secretary Holland said the discussions in his committee had identified three levels of Government financing for Latin America: (1) a very restricted policy of Export–Import Bank loans; (2) a middle-of-the-road approach along the lines of NSC 5432, an approach which would, in his view, assure the success of the Rio meeting; and (3) the liberal policy described earlier in the meeting by Governor Stassen. Secretary Holland added that he would agree 100% with Governor Stassen on the need for a more vigorous program, but he believed that vigorous implementation of NSC 5432 would result in a realization of U.S. objectives in Latin America.

The Vice President noted that this paragraph also had some built-in qualifications. For instance, each loan must be within the Export–

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[20] The text of the referenced paragraph reads as follows: "Be prepared to assure the financing of all [to assist in the financing of] sound economic development projects, for which private capital or IBRD financing is not available, through Export–Import Bank loans; subject to each loan being:

"(1) in the interest of both the United States and the borrowing country,

"(2) within the borrower's capacity to repay,

"(3) within the Bank's lending capacity."

The text indicates that the bracketed alternative language was a "Treasury proposal."

Import Bank's lending capacity. Secretary Overby felt the qualification should be the practice, not the capacity, of the Bank. The Vice President asked exactly what was meant—the Bank's rules, the Bank's policy, the statutes governing the Bank, or what? Secretary Overby said he meant the Bank's practice. Mr. Cutler said that one of the purposes of NSC 5432 was to change the practices of the Export-Import Bank.

Secretary Smith agreed that the policy of the Export-Import Bank in the past had been far too restrictive in Latin America. He would go even further than the Planning Board paper, and say that sound economic projects in Latin America should be financed "through a liberalized policy of Export-Import Bank loans". Mr. Hughes felt that the word "assure" did not mean 100% underwriting of loans by the Export-Import Bank. The Vice President agreed, and added that there were other qualifications, such as the word "sound". He suggested that paragraph 9-*b* as written should be recommended to the President. He detected a general feeling around the table, with Treasury dissenting, that the loan policy of the Bank should be liberalized. Secretary Overby felt that at the very least the paragraph should read "assure the financing of all necessary *dollar* costs", in order to avoid a policy of underwriting foreign currency costs. Secretary Smith and Governor Stassen could not agree with this proposal. Secretary Smith added that he still liked his suggestion for inserting "a liberalized loan policy" in the paper, but he wouldn't press it. The Vice President said that Secretary Smith's views were part of the legislative history of this paper. He added that the Planning Board apparently wanted to "goose" the Bank. He suggested that any difficulty arising from the laws or the Bank's charter might be avoided by adding at the end of subparagraph 9-*b*-(3) the words "and charter powers", so that each loan would have to be within the charter powers of the Bank.

Governor Stassen said that paragraph 9-*c*[21] had been proposed by FOA and ODM as a means of financing projects which could not be financed under the paragraph just discussed (9-*b*). He said paragraph 9-*c* did not involve an automatic spending procedure, but did make it possible to move decisively toward accelerated economic development in Latin America. Secretary Smith said his very competent advisers, some of whom were present, viewed this paragraph with misgivings. They wanted sound loans or grants, and were against uneconomic loans. Secretary Smith, however, personally felt that if the language of the paragraph meant what it seemed to mean, there was no reason for alarm.

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[21] The referenced paragraph proposed by FOA and ODM reads as follows:

"*c*. Finance through development assistance loans the initiation or acceleration of projects or activities which are in the basic U.S. interest and which, in the absence of such additional assistance, would not be undertaken or, if undertaken, would not be carried forward at the rate required by U.S. foreign policy objectives."

Consequently, he would not oppose inclusion of this paragraph in the paper.

Secretary Overby was opposed to the paragraph. He said this policy might discourage trade, private investment and private enterprise; it might impair the lending standards of our lending institutions; and it was not something Latin America was demanding. Secretary Smith said the paragraph had hidden assets. He would like the Export-Import Bank to know that if it turned down loans to Latin America they could be made in some other say. Secretary Overby said that if we started making fuzzy loans, all Latin American countries would want them rather than sound loans. Acting Secretary of Defense Anderson suggested that these loans might be made for projects which were in the basic U.S. interest "as determined by the Secretary of State and the Secretary of the Treasury". Secretary Smith objected to this formula.

Dr. Flemming said that his representative on the Planning Board had not been instructed by him to propose this paragraph. He added that the Defense Production Act [22] contained a provision for a revolving loan fund which the Director of ODM, with the concurrence of the Special Committee, could use to make non-bankable loans if a loan application had been turned down as not bankable. Dr. Flemming then asked whether the proposed paragraph 9–*c* did not give the State Department a useful tool in economic warfare; if so, he was inclined to favor the paragraph.

Governor Stassen felt the paragraph would be a very useful policy tool and would be implemented under proper financial safeguards. Mr. Hughes said he had understood Secretary Holland to say that this paragraph was not necessary. Secretary Smith called attention to the fact that he and he alone was representing the State Department. Secretary Smith then wondered whether this paragraph should not be the subject of further study. The Vice President felt the paragraph should not be deleted, since this would rule out the possibility of development assistance loans. As an alternative to deletion he suggested that the paragraph should be revised to say that if the policies in 9–*a* and 9–*b* were inadequate, then we would fall back on development assistance loans as described in paragraph 9–*c*. Governor Stassen agreed with this suggestion.

Dr. Flemming said he would not press the ODM suggestion for paragraph 9–*f*.[23]

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[22] For text of the Defense Production Act of 1950 (Public Law 774), approved Sept. 8, 1950, see 64 Stat. 798.

[23] Reference is to paragraph 9–*f*, subparagraph (1) the text of which reads as follows: "Reasonable and non-discriminatory laws and regulations affecting business, [including legislation providing opportunity to domestic capital to acquire a reasonable share in new enterprises.]" The bracketed language indicates the ODM proposal.

Governor Stassen called attention to paragraph 9–*g*,[24] proposed by FOA. He said he felt the U.S. could not reasonably oppose Latin American initiative in regional economic actions. If Latin American countries would devise an economic mechanism of their own choosing to couter inflation and promote the growth of the area, we might have to use fewer dollars in Latin America. Mr. Cutler said the Planning Board had not endorsed this paragraph because it was felt that regional economic groupings might tend to break down the Organization of American States. Secretary Smith said this Government had usually opposed the Latin American tariff unions. However, he would prefer to study any proposed regional economic action or grouping on its merits rather than undertake a blanket commitment not to oppose any regional grouping. He therefore suggested that paragraph 9–*g* begin as follows: "Consider sympathetically, but on their individual merits, any proposals on Latin American initiative to create . . .".

Dr. Flemming explained paragraph 9–*h*,[25] proposed by ODM and FOA. He said that the Agricultural Trade and Adjustment Act permitted a start in the direction of building up large-scale non-deteriorating assets in place of strategic stockpiles. However, this Act was fuzzy. (*Note:* The above-mentioned Act is correctly titled "Agricultural Trade Development and Assistance Act of 1954"; [26] the original action has been revised to reflect this.)

Secretary Smith said that State did not object to the proposed paragraph, which could be a tool of tremendous value. However, he saw one objection to the paragraph, in that it might create in Latin America industries whose sole purpose was to exploit our stockpile laws.

Dr. Flemming said this paragraph might become an effective weapon in economic warfare. He added that the President had recently remarked that in the cold war the side with the corner on strategic commodities would have the advantage.

Secretary Overby referred to paragraph 26 of NSC 5422/2,[27] which provided that the U.S. stockpiling program should not normally be used to help stabilize international markets for the exports of under-developed countries. He felt that the proposed paragraph 9–*h* of NSC 5432 was inconsistent with the approved policy in NSC 5422/2. He asked whether the proposed paragraph 9–*h* reflected an aid program or a stockpiling program. Mr. Cutler said the proposed paragraph 9–*h* had nothing to do with the stockpiling program. The Vice President remarked that in any case the words "seek legislation" in the proposed paragraph allowed four to five months for study of the question.

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[24] The text of the referenced paragraph proposed by FOA reads as follows:

"*g.* Not oppose Latin American initiative to create regional economic actions and groupings to promote increased trade, technical cooperation and investment, and to concert sound economic development plans."

[25] The text of the referenced paragraph proposed by FOA and ODM reads as follows:

"*h.* Seek legislation, outside the scope of the present Stock Piling Act, which will sanction the building of large-scale non-deteriorating assets valuable to the future of the United States rather than acquisitions limited as at present to strategic reserves for strictly defense uses."

Stock Piling Act refers to the Strategic and Critical Materials Stock Piling Act of 1946 (Public Law 520), approved July 23, 1946; for text, see 60 Stat. 596.

[26] Public Law 480, approved July 10, 1954; for text, see 68 Stat. 454.

[27] NSC 5422/2, titled "Guidelines Under NSC 162/2 for FY 1956," dated Aug. 7, 1954, and approved by President Eisenhower on the same date, is printed in volume II.

NSC 162/2, titled "Basic National Security Policy," dated Oct. 30, 1953, and approved by President Eisenhower on that date, is printed *ibid.*

Dr. Flemming said that paragraph 26 of NSC 5422/2 referred to the defense stockpile, which was entirely separate from the present question. He felt that a supplementary stockpile would help in disposing of agricultural surpluses and would also help allay any domestic political misgivings which might arise if we started purchasing from abroad for the defense stockpile, goods which were domestically available.

Secretary Overby wondered whether the proposed paragraph 9–*h* would help in disposing of agricultural surpluses. He thought the paragraph was a purchase, not a barter, provision. Dr. Flemming said the new law contained barter authority. Mr. Hughes said the proposed paragraph had tremendous budgetary implications. He felt the policy should be decided on a separate over-all basis rather than as part of a Latin American paper. Governor Stassen agreed that the implications of the proposed policy were world-wide. Secretary Smith said he would strongly support the policy contained in the proposed paragraph 9–*h* if it were presented to the Council as a separate world-wide problem.

Mr. Cutler inquired whether the Council wished to delete paragraph 9–*h* from NSC 5432 and consider the proposed policy when NSC 162/2 was reviewed. Governor Stassen said he had no objection to including the policy in paragraph 9–*h* in a future revision of NSC 162/2, but he thought this policy should also be included in the Latin American paper. He suggested it could be directly related to Latin America by beginning the paragraph with the words "Utilize, in relation to Latin America, the authority in the Act, etc.".

Mr. Cutler noted, with reference to paragraph 11,[28] that the Planning Board was split on whether information, cultural, education and exchange programs for Latin America should be "expanded" or "developed". He observed that the word "develop" was used in the Far East paper.[29] The Vice President felt that the word ought to be "expanded" both in this paper and in the Far East paper.

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[28] The text of paragraph 11 reads as follows:

"The United States should expand [develop] and make more effective, information, cultural, education and exchange programs for the countries concerned. The U.S. Information and Cultural Programs for Latin American States should be specifically directed to the problems and psychology of specific states in the area, with the objective of alerting them to the dangers of Soviet imperialism and communist and other anti-U.S. subversion, and convincing them that their own self-interest requires an orientation of Latin American policies to our objectives." The text indicates that the bracketed alternative word was a "Treasury and Budget proposal." In their memorandum of Aug. 31, 1954, to the Secretary of Defense, cited in footnote 7, p. 68, the Joint Chiefs of Staff expressed a preference for the original wording of the paragraph.

Mr. Cutler said that the Joint Chiefs of Staff wished to delete paragraph 20–*c* [30] and substitute the following:

> "Continue to provide training in the United States for selected Latin American personnel."

The Acting Secretary of Defense said that the Army had had difficulty with overcrowding at West Point. However, he personally felt that the quotas for foreign students should be increased, as proposed by the Planning Board, rather than decreased. The establishment of an Air Force Academy [31] ought to relieve some of the overcrowding at West Point.

Admiral Radford said the Armed Services had objected to increasing quotas for foreign students at the Service Academies. However, even though he had signed the memorandum transmitting the Joint Chiefs of Staff views [32] (filed in the minutes of the meeting), he personally felt that the quotas for foreign students should be increased. If the Council wished to adopt paragraph 20–*c* as recommended by the Planning Board, he would put the necessary heat on the Services.

Mr. Cutler noted that the Joint Chiefs of Staff proposed the omission of the bracketed phrase in paragraph 20–*e*,[33] "if necessary by higher priorities". Acting Secretary of Defense Anderson felt that priorities for the delivery of military equipment should not be established in an NSC policy paper. Secretary Smith remarked that the Defense position was theoretically correct. However, in practice Latin America was at the bottom of the heap as far as military priorities were concerned. As a result, we make it impossible for Latin American countries to obtain U.S. military equipment, so they buy such equipment in Europe.

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[29] Apparent reference to NSC 5429/2, titled "Review of U.S. Policy in the Far East", dated Aug. 20, 1954, and approved by President Eisenhower on the same date; it is printed in volume XII.

[30] The text of the referenced paragraph reads as follows:

"Increase the quotas of qualified Latin American personnel for training in U.S. Armed Forces schools and training centers; encourage Latin American countries to fill their authorized quotas for the U.S. Military and Naval Academies; and provide and encourage Latin American countries to fill a similar quota for the Air Force Academy."

[31] The United States Air Force Academy was established Apr. 1, 1954 in temporary quarters on Lowry Air Force Base at Denver, Colorado, and moved to its permanent location at Colorado Springs, Colorado, in 1958.

[32] Reference is to the JCS memorandum of Aug. 31, 1954, to the Secretary of Defense.

[33] The text of the referenced paragraph reads as follows:

"Seek ultimate military standardization, along U.S. lines, of the organization, training, doctrine, and equipment of Latin American armed forces; countering trends toward the establishment of European military missions in Latin America; and facilitating the purchase of U.S. equipment by offering Latin American countries competitive prices, more rapid delivery [if necessary by higher priorities] and credit terms, including long-term payments, pre-delivery financing of long lead-time items, and, if feasible, use of foreign currency and, in exceptional cases, barter arrangements." The text indicates that the bracketed alternative language was a "State and FOA proposal." The Joint Chiefs of Staff in their memorandum of Aug. 31, 1954, to the Secretary of Defense, gave the following reason for their desire to have the bracketed phrase omitted: "Priorities governing the allocation of military equipment to United States forces and to the forces of friendly countries are established in accordance with criteria designed to correlate the supplying of such equipment with world-wide strategic requirements. Changes in the order of precedence should be responsive to changes in these strategic requirements and should neither be considered in isolation nor be resorted to as a device to accelerate deliveries to a particular country or group of countries." (JCS files, 381–Western Hemisphere)

Admiral Radford felt that any priorities for the delivery of military equipment should be determined on a case-by-case basis. Secretary Smith said he would agree to omit the bracketed phrase from paragraph 20-*e* if it were clearly understood that we really wanted Latin American countries to use our military equipment.

Secretary Overby was concerned about the suggestion in paragraph 20-*e* that we might accept foreign currency to facilitate Latin American purchase of U.S. military equipment. He felt it would be preferable to give Latin American countries this equipment rather than accept unusable soft currencies. Admiral Radford remarked that if we accepted soft currency from Latin America, other countries would also want to pay us in soft currency. Secretary Smith said we were merely granting most-favored-nation treatment to Latin America in the purchase of military equipment.

Mr. Cutler pointed out that the Planning Board recommended that the approved version of NSC 5432 should supersede NSC 5419/1, "U.S. Policy in the Event of Guatemalan Aggression in Latin America". The Planning Board felt that NSC 5419/1 was no longer applicable, particularly in view of the incorporation in NSC 5432 of paragraph 6, relating to action against anti-U.S. subversion or intervention in Latin America and to the application of sanctions in the event of domination of a Latin American country by Communism.

The National Security Council: [34]

a. Discussed the subject on the basis of the statement of policy in NSC 5432; in the light of the views of the Joint Chiefs of Staff presented orally at the meeting; and the views of Dr. Milton Eisenhower as read at the meeting by Mr. Cutler.

b. Adopted the statement of policy contained in NSC 5432, subject to the following amendments:

(1) *Paragraph 4-b:* Delete the bracketed phrase and the footnote referring thereto.

(2) *Paragraph 5-i:* Delete.

(3) *Paragraph 9-b:* Delete the bracketed phrase and the footnote referring thereto, and add the words "and charter powers" at the end of subparagraph 9-*b*-(3).

(4) *Paragraph 9-c:* Revise to read as follows:

"*c.* Only if *a* and *b* above prove to be inadequate, finance through development assistance loans the initiation or acceleration of projects or activities which are in the basic U.S. interest and which, in the absence of such additional assistance, would not be undertaken or, if undertaken, would not be carried forward at the rate required by U.S. foreign policy objectives."

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[34] Paragraphs *a–d* constitute NSC Action No. 1209.

(5) *Subparagraph 9–f–(1):* Delete the bracketed phrase and the footnote referring thereto.

(6) *Paragraph 9–g:* Revise to read as follows:

"*g.* Consider sympathetically, but only on individual merit, any proposal by Latin American initiative to create regional economic actions and groupings to promote increased trade, technical cooperation and investment, and to concert sound development plans."

(7) *Paragraph 9–h:* Delete, and substitute therefor the following:

"*h.* Utilize, in reference to Latin America, the authority in the Agricultural Trade Development and Assistance Act of 1954 to build non-deteriorating assets valuable to the future of the United States."

(8) *Paragraph 11:* Delete the bracketed word "develop" and the footnote referring thereto.

(9) *Paragraph 20–e:* Revise to read as follows:

"*e.* Seek ultimate military standardization along U.S. lines, of the organization, training, doctrine and equipment of Latin American armed forces; countering trends toward the establishment of European military missions in Latin America, or agencies or individuals with a similar function, other than those of the United States; and facilitating the purchase of U.S. equipment by offering Latin American countries competitive prices, more rapid delivery, and credit terms, including long-term payments, pre-delivery financing of long lead time items, and, if feasible, use of foreign currency and, in exceptional cases, barter arrangements."

c. Discussed the preliminary draft financial appendix for NSC 5432 circulated at the meeting, and noted that a final revised version would be circulated with the policy as approved.

d. Agreed that the statement of policy contained in NSC 5419/1 should be terminated as no longer applicable.

Note: NSC 5432, as amended, approved by the President; referred to the Operations Coordinating Board as the coordinating agency designated by the President; and circulated as NSC 5432/1. The action in *d*-above approved by the President and transmitted to the Operations Coordinating Board and to all holders of NSC 5419/1.

[Here follows discussion of certain organizational aspects of foreign military assistance and also United States objectives and policies with respect to the Near East.]

S/S-NSC files, lot 63 D 351, NSC 5432 series

Statement of Policy by the National Security Council[1]

TOP SECRET [WASHINGTON,] September 3, 1954.

NSC 5432/1

UNITED STATES OBJECTIVES AND COURSES OF ACTION WITH RESPECT TO LATIN AMERICA

GENERAL CONSIDERATIONS

1. There is a trend in Latin America toward nationalistic regimes maintained in large part by appeals to the masses of the population. Concurrently, there is an increasing popular demand for immediate improvement in the low living standards of the masses, with the result that most Latin American governments are under intense domestic political pressures to increase production and to diversify their economics.

2. A realistic and constructive approach to this need which recognizes the importance of bettering conditions for the general population, is essential to arrest the drift in the area toward radical and nationalistic regimes. The growth of nationalism is facilitated by historic anti-U.S. prejudices and exploited by Communists.

3. Latin America needs U.S. assistance for the solution of these problems and will become increasingly subject to Communist intervention and subversion unless such assistance is forthcoming. Realizing the increasing importance of helping Latin America to reverse those trends which offer opportunities for Communist penetration, the U.S. should give greater emphasis than heretofore to its Latin American programs in order to safeguard and strengthen the security of the Hemisphere. The limited purpose of this paper is to define our objectives and courses of action concerning these and other important problems common to the area.

OBJECTIVES

4. The objectives of the United States with respect to Latin America are:

a. Hemisphere solidarity in support of our world policies, particularly in the UN and other international organizations.

b. An orderly political, military, and economic development in Latin America so that the states in the area will be more effective members of the hemisphere system and increasingly important participants in the affairs of the free world.

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[1] Acting NSC Executive Secretary Gleason, in a covering note dated Sept. 3, 1954, not printed, informed the NSC that the President had that date approved the statement of policy in NSC 5432 as amended by NSC Action No. 1209-*b* and adopted at the Council's meeting on Sept. 2, transmitted as NSC 5432/1, and directed its implementation by all appropriate Executive departments and agencies. The President designated the Operations Coordinating Board as the coordinating agency. See the memorandum of discussion at the NSC meeting, *supra*.

c. The safeguarding of the hemisphere, including sea and air approaches, by individual and collective defense measures against external aggression through the development of indigenous military forces and local bases necessary for hemisphere defense.

d. The reduction and elimination of the menace of internal Communist or other anti-U.S. subversion.

e. Adequate production in Latin America of, and access by the United States to, raw materials essential to U.S. security.

f. Support by Latin America of collective action in defense of other areas of the free world.

g. The ultimate standardization of Latin American military organization, training, doctrine and equipment along U.S. lines.

COURSES OF ACTION

Political

5. *Hemisphere Solidarity.* The United States should achieve a greater degree of hemisphere solidarity by:

a. A greater utilization of the Organization of American States as a means of achieving our objectives, which will avoid the appearance of unilateral action and identify our interests with those of the other American states.

b. Being prepared to increase, and encouraging other members to increse proportionately, financial support for the activities of the Organization of American States, particularly constructive technical programs carried on through the Pan American Union and specialized agencies, in order to increase their relative role in the handling of multilateral contributions.

c. Consulting with the Latin American states, whenever possible, before taking actions which will affect them or for which we wish their support, explaining as fully as security permits the reasons for our decisions and actions.

d. Evidencing greater consideration of Latin American problems at the highest levels of government by according sympathetic attention to representatives of Latin America, by exercising care in public statements relating to the area, and through such methods as visits by high officials and distinguished private citizens to Latin American states.

e. Refraining from overt unilateral intervention in the internal political affairs of the other American states, in accordance with existing treaty obligations. This does not preclude multilateral action through the inter-American system. . . .

f. Taking into consideration, in determining the extent of U.S. assistance and support to particular American states, their willingness and ability to cooperate with the United States in achieving common objectives.

g. Trying, in extending aid and advice of all kinds, to make it of a type and extend it in a way, which will preserve a relationship of equality and avoid the semblance of patronizing Latin America.

h. Assisting through the Organization of American States, or by such other means as may be available, those American states which are resisting pressures from their neighbors, whenever such pressures are inimical to U.S. interests and the inter-American system.

6. *Increased Action Against Communist Penetration.*

a. The U.S. should encourage through consultation, prudent exchange of information, and other available means, individual and collective action against Communist or other anti-U.S. subversion or intervention in any American state.

b. In the event of threatened or actual domination of any American state by Communism, the U.S. should, pursuant to Resolution 93 of the 10th Inter-American Conference, promote and cooperate in application of the sanctions, including military, provided for in the Rio Treaty to the extent necessary to remove the threat to the security of the Hemisphere, all sanctions being applied in collaboration with other OAS members to the extent feasible, and unilateral action being taken only as a last resort.

7. *Colonialism.*

a. The United States should encourage acceptance and implementation by interested states of the principle that dependent and colonial peoples in this Hemisphere should progress by orderly processes toward a self-governing status to be achieved when they are ready for it.

b. When disputes between American and non-American states over dependent territories cannot be settled by direct negotiations, the United States should encourage peaceful settlements by other methods available to the parties.

8. *Other measures.* The United States should also:

a. Assist and encourage the formation and development of responsible organized labor movements and leadership in Latin American countries such as the Inter-American Organization of Workers (ORIT) as presently oriented.

b. Encourage Latin American governments to continue to prevent direct shipments of strategic materials to the Soviet bloc and to adopt an import certificate and delivery verification system to facilitate the prevention of indirect shipments.

9. *Increased Stability and Economic Development.*[2] The U.S. should:

a. Adopt stable, long term trading policies with respect to Latin American countries, including gradual selective reduction of U.S. barriers and tariffs on trade.

b. Through Export-Import Bank loans, provided each such loan is (1) in the interests of both the United States and the borrowing country, (2) within the borrower's capacity to repay, and (3) within the Bank's lending capacity and charter powers, be prepared to assure such financing of all sound economic development projects, for which private capital or IBRD financing is not available.

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[2] At the 224th meeting of the National Security Council, held Nov. 15, 1954, the Council adopted Action No. 1270-*b* authorizing the amendment of NSC 5432/1, paragraph 9, sections (*b*), (*c*), and (*g*). President Eisenhower approved the NSC action on Nov. 16. The amendments were incorporated into revised pages for NSC 5432/1, which were transmitted to all holders of that document under cover of a memorandum by Mr. Lay, dated Nov. 16, 1954. (S/P-NSC files, lot 62 D 1)

For text of paragraph 9, sections (*b*), (*c*), and (*g*), as they read prior to revision on Nov. 15, see the memorandum of discussion at the 224th meeting of the NSC, p. 344.

c. Only if action under *a* and *b* above over a period of time demonstrates that these courses of action are inadequate, and then only with Presidential approval in each case, finance through development assistance loans the initiation or acceleration of projects or activities which are in the basic U.S. interest and which, in the absence of such additional assistance, would not be undertaken or, if undertaken, would not be carried forward at the rate required by U.S. foreign policy objectives.

d. Strengthen, and program on a longer term basis, technical cooperation, with particular attention to the willingness and ability of each country to use such aid effectively: and increase specialized training in the U.S. of Latin Americans in finance, labor, management, agriculture, business and other specialized fields.

e. Preserve the necessary authority to continue or undertake limited economic grant programs such as the Inter-American Highway and the Rama Road, and the emergency program now being carried out in Bolivia.

f. While recognizing the sovereign right of Latin American countries to undertake such economic measures as they may conclude are best adapted to their own conditions, encourage them by economic assistance and other means to base their economies on a system of private enterprise and, as essential thereto, to create a political and economic climate conducive to private investment, of both domestic and foreign capital, including:

> (1) Reasonable and non-discriminatory laws and regulations affecting business,
>
> (2) Opportunity to earn and in the case of foreign capital to repatriate a reasonable return,
>
> (3) Reasonable rate-making policies in government regulated enterprises,
>
> (4) Sound fiscal and monetary policies, and
>
> (5) Respect for contract and property rights, including assurance of prompt, adequate, and effective compensation in the event of expropriation.

g. Consider sympathetically, but only on individual merit, any proposal by Latin American initiative to create regional economic actions and groupings to promote increased trade, technical cooperation and investment, and to concert sound development plans; with the understanding that any such proposal would not involve discrimination against U.S. trade and that no additional U.S. financial commitments would be involved hereunder without further consideration by the National Security Council.

h. Utilize, in reference to Latin America, the authority in the Agricultural Trade Development and Assistance Act of 1954 to build non-deteriorating assets valuable to the future of the United States.

i. Where appropriate encourage diversification of Latin American economies on a sound basis.

10. The United States should encourage the institution of necessary Latin American government fiscal, budgetary and other measures which are indispensable to economic progress in the area through utilization of the International Monetary Fund, the International Bank, the Export-Import Bank, and other appropriate means.

Information and Related Activities

11. The United States should expand and make more effective, information, cultural, education and exchange programs for the countries concerned. The U.S. Information and Cultural Programs for Latin American states should be specifically directed to the problems and psychology of specific states in the area, with the objective of alerting them to the dangers of Soviet imperialism and communist and other anti-U.S. subversion, and convincing them that their own self-interest requires an orientation of Latin American policies to our objectives.

12. . . .

Military

13. The United States should encourage acceptance of the concept that each of the Latin American states is responsible for maximizing its contribution, by military and mobilization measures, to:

a. The internal security of its own territory.

b. The defense of its own territory, including land communication, coastal waters, ports and approaches thereto, bases located within its area of responsibility and air lanes of communication associated therewith.

c. The allied defense effort, including participation in combined operations within the hemisphere and support of collective actions in other theaters by forces beyond the requirements of hemisphere security.

14. In support of the course of action in paragraph 13, the United States should provide military assistance to Latin America consistent with the agreed plans of the Inter-American Defense Board and other bilateral or multilateral military agreements to which the United States is a party. U.S. military assistance should be designed to reduce to a minimum the diversion of U.S. forces for the maintenance of hemisphere security; and in determining the type of military assistance to be provided each nation, consideration should be given to its role in hemisphere defense.

15. The United States should assume primary responsibility for military operations in the Atlantic and Pacific Oceans and the Caribbean Sea, including sea and air approaches to the Panama Canal, and at the appropriate time should seek from other American states acceptance of U.S. military control of the defense of these areas.

16. To the extent that military bases other than U.S. bases in Latin America are required to further joint defense efforts, the United States

should technically guide and assist the Latin American countries in their development and maintenance and seek agreements providing for their reciprocal use, rights of air transit and technical stops, and availability for common defense purposes.

17. . . .

18. Where necessary the United States should assist in the protection of sources and processing facilities of strategic materials and land transportation related thereto. However, each of the Latin American countries should organize its own civil defense.

19. In providing military aid and seeking military commitments the United States should not encourage Latin American nations to contribute to the military effort to an extent which would jeopardize their economic stability.

20. In addition, the United States should:

a. Continue the planning of the Inter-American Defense Board and the Military Commissions on which we are jointly members with Brazil and Mexico.

b. Continue and establish where appropriate, military training missions in Latin American nations.

c. Increase the quotas of qualified Latin American personnel for training in U.S. Armed Forces schools and training centers; encourage Latin American countries to fill their authorized quotas for the U.S. Military and Naval Academies; and provide and encourage Latin American countries to fill a similar quota for the Air Force Academy.

d. Foster closer relations between Latin American and U.S. military personnel in order to increase the understanding of, and orientation toward, U.S. objectives on the part of the Latin American military, recognizing that the military establishments of most Latin American states play an influential role in government.

e. Seek ultimate military standardization, along U.S. lines, of the organization, training, doctrine, and equipment of Latin American armed forces; countering trends toward the establishment of European military missions in Latin America, or agencies or individuals with a similar function, other than those of the United States; and facilitating the purchase of U.S. equipment by offering Latin American countries competitive prices, more rapid delivery and credit terms, including long-term payments, pre-delivery financing of long lead-time items, and, if feasible, use of foreign currency and, in exceptional cases, barter arrangements.

[Annex]

Financial Appendix to NSC 5432/1 Prepared for the National Security Council[3]

[Extract]

SECRET [WASHINGTON,] September 8, 1954.

ESTIMATED COST OF THE PROPOSED POLICIES

Table I. Expenditures by Programs

FY 1953–FY 1958

(Millions of Dollars)

	Actual Expenditures		Estimated Expenditures				
	1953	1954	1955	1956	1957	1958	Total 1955–58
Military Assistance*	66.8	43.7	47.5	23.8	14.5	10.0	95.8
Economic Assistance†	—	10.4‡	9.1	11.9	10.0	10.0	41.0
Inter-American Highway and Rama Road §	2.3	3.2	7.3	14.0	8.0	8.0	37.3
Technical Assistance‖	19.4	19.5	29.2	34.0	38.5	43.0	144.7
Information Services¶	5.3	4.0	4.7	6.8	7.8	7.8	27.1
Educational Exchange	.8	.8	1.1	2.8	3.1	3.1	10.1
Other Programs**	3.4	3.6	3.6	4.3	4.5	4.5	16.9
Totals	98.0	85.2	102.5	97.6	86.4	86.4	372.9

Note on Loans: The above projections do not include loans. (1) Possible development assistance loans, under paragraph 9–*c* might during this period average $50 million a year. (2) Loans from the International Bank or the Export-Import Bank under para. 9–*b* of this policy are estimated to total as follows:

	FOA estimate	*State estimate*
FY 1955	$150–250 million	$100–200 million
FY 1956	$250–350 million	$100–200 million
FY 1957	$300–400 million	$100–200 million
FY 1958	$300–400 million	$100–200 million

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[3] A draft of this financial appendix, dated Sept. 1, 1954, was submitted to the NSC on Sept. 2, and subsequently revised at a meeting of the NSC Planning Board on Sept. 7. The revised version was transmitted to all holders of NSC 5432/1 under cover of a memorandum by Mr. Lay, dated Sept. 8, 1954. (S/P–NSC files, lot 61 D 167)

*Value of matériel shipments (including the value of "excess stocks"), plus expenditures for training, and packing, handling and crating, and transportation, and the cost of rehabilitating "excess stocks." Figures do not include purchases under the Reimbursable Aid provisions of the Mutual Security Laws. Shipments of Reimbursable Aid to 16 Latin American countries totaled $34.8 million through 30 June 1954. While long-term credits and loans are authorized by the Mutual Security Act of 1954 (under which the provisions relating to credit terms in paragraph 20–*e* of the proposed policy would be implemented), the method of financing and the amounts involved have not been determined. The figures also do not reflect the cost of subsidies which would be required if Latin American countries are to be offered "competitive prices" under paragraph 20–*e* on the type of U.S.

Footnotes continued on following page.

Footnotes continued from preceding page.

military equipment now in production. It is estimated that a price reduction of from 15 to 25 percent would be required to make U.S. military equipment competitive with that offered for sale by other countries. Since new legislation would be required to accomplish this policy, expenditures for this purpose would not start until FY 1956. [Footnote in the source text.]

† *Para. 9–e:* In addition to the $9.1 million in FY 1955 and $1.9 million in FY 1956, for carrying out the current emergency program in Bolivia, the estimated expenditures include $10 million per year for FY 1956–58. FOA would justify these expenditures as grants to accelerate technical assistance projects and partially to cover possible emergency aid. State would justify them as emergency aid alone.

The above projections do not include possible programs for disposal of surplus commodities under the Agricultural Trade Development and Assistance Act of 1954. The local currency generated from the sale of such surplus commodities might serve in some instances to reduce the dollar amounts of aid projected. [Footnote in the source text.]

‡ Emergency program for Bolivia. [Footnote in the source text.]

§ *Para. 9–e:* It is estimated that the expenditures planned for FY 1956 will complete the Rama Road. The $8.0 million in expenditures thereafter are for the Inter-American Highway. [Footnote in the source text.]

‖ *Para. 9–d:* Figures supplied by FOA, which include the U.S. contribution to the technical assistance program of the O.A.S. The Department of State estimates expenditures for technical assistance, including the U.S. contribution to the O.A.S. program, as follows: FY 1956, $31.5 million; FY 1957, $32.0 million; FY 1958, $32.5 million. The Bureau of the Budget notes that the policy calls for "strengthening" the program and therefore believes State estimates more accurate.

Figures do not include U.S. contributions to UN expenditures in Latin America (calendar year programs), which were $2.8 million in FY 1953 and $2.5 million in FY 1954. Recent Congressional action prohibits pledges beyond 1954. [Footnote in the source text.]

¶ *Para. 11:* These figures do not reflect in FY 1955 the expansion of the information program called for by para. 11 of NSC 5432/1. The Department of State estimates that under paragraph 11 expenditures should be increased from $4.6 million to $5.9 million in FY 1955. The USIA does not believe that expenditures can be substantially increased in FY 1955 within available and recently reprogrammed funds. The figures represent estimated expenditures in Latin America and European Dependencies in the Caribbean for local operating costs and Agency support in the form of supplies, materials and services provided the missions for carrying out their program responsibilities. [Footnote in the source text.]

** *Para. 5–b:* Activities of O.A.S. other than technical assistance. In accordance with paragraph 5–*b* of the policy, expenditures for these activities have been estimated to increase. [Footnote in the source text.]

S/P-NSC files, lot 62 D 1, NSC 5432 series

Progress Report by the Operations Coordinating Board to the National Security Council [1]

TOP SECRET [WASHINGTON,] January 19, 1955.

PROGRESS REPORT ON NSC 5432/1 UNITED STATES OBJECTIVES AND COURSES OF ACTION WITH RESPECT TO LATIN AMERICA

(Policy Approved by the President, September 3, 1954)
(Period Covered: April 30–December 1, 1954)

A. SUMMARY OF MAJOR ACTIONS

1. A communist-dominated government in Guatemala was overthrown and a government favorable to the U.S. came into power. The U.S. is supporting this new government with relatively substantial military and economic assistance.

2. The U.S. demonstrated increased support and use of the OAS and is increasing its financial support of that organization. Despite several incidents of friction in Central and South America, the U.S. has been instrumental in averting any breach of the peace.

3. Criticism of U.S. economic policy which reached a climax prior to the Rio Economic Conference has somewhat subsided. Criticism at the conclusion of the conference was less severe than might have been anticipated due in part to the sympathetic but firm attitude demonstrated by our Delegation and the assurances given by the Delegation of our determination to help Latin America solve its economic problems on a sound basis. Announcement of our support of an International Finance Corporation; [2] liberalization of, and announcement of, loans under our development loan policy, and decisions not to impose additional duties on lead and zinc were major factors in reducing Latin American criticism.

4. The U.S. responded promptly and effectively to urgent appeals from Haiti and Honduras to meet major flood disasters in those countries, and subsequently extended substantial economic aid.

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[1] A title sheet and covering memorandum are not printed. Drafted on Dec. 29, 1954, by the OCB's Working Group on Latin America, and reviewed at the OCB's Board Assistants' meeting on Jan. 7, 1955. As a result of the meeting, a revised draft was prepared, under date of Jan. 10, not printed, and forwarded to the OCB. On Jan. 19, the OCB approved the report for transmittal to the NSC, all agencies represented on the OCB concurring in the report as submitted. (Memorandum by Mr. Sparks to Secretary Dulles, dated Feb. 14, 1955, S/P-NSC files, lot 61 D 167, NSC 5432/1) The report was transmitted to the OCB on Feb. 3. Records of the OCB meetings and the Board Assistants' record of actions are contained in S/S-OCB files, lot 62 D 430.

[2] Apparent reference to an announcement by the Treasury Department on Nov. 11, 1954; for text, see Department of State *Bulletin*, Nov. 29, 1954, p. 814.

5. A decision to pay transportation, per diem and course costs for military trainees from MDAP countries in Latin America resulted in a substantial increase in the number of such trainees scheduled for attendance at Service schools in the U.S. and in the Canal Zone.

6. New Military Assistance Agreements with Honduras and Nicaragua are being implemented and the military grant program for Colombia was increased by one battalion; but, in general, the U.S. has been unable to accede to requests for increased grant military assistance.

7. The information program during this period was reoriented so as to deliver more impact in the priority countries such as Brazil, Chile, Bolivia and Guatemala. The President's "Atoms for Peace" proposal,[3] the Rio Economic Conference, pertinent recommendations of the Milton Eisenhower report, and activities exposing Communism received continuing emphasis in both planning and output.

B. OPERATIONAL CONSIDERATIONS BEARING ON POLICY

8. The Working Group sees no need for any change at this time in the policy enunciated in NSC 5432/1. However, the Working Group has not had the opportunity to assess the impact of the Rio Economic Conference on policy.

C. EMERGING PROBLEMS AND FUTURE ACTIONS

9. The coming six months will in all probability be marked by a continuation of present problems in the political and economic fields. In the political field, the principal problem will be to find the means of associating the United States with the aspirations of the peoples of Latin America, thus counteracting communist propaganda which consistently and often effectively portrays the United States as the defender of "so-called exploiters" in opposition to the interests of the common people. To win the support of the peoples as well as the governments for our major policy objectives is a task of enormous and long-range proportions.

10. In the economic field, the United States will continue to be concerned with maintaining economic stability and accelerating economic development in Latin America. The United States will also have to face the desire of Latin Americans to have the U.S. assume a larger share of the financial burden involved in solving their economic problems than the U.S. is willing to bear. To meet this situation, the United States should continue its efforts to encourage and strengthen the will and ability of Latin America to take necessary self-help actions and at the

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[3] Outlined in President Eisenhower's address made before the United Nations General Assembly on Dec. 8, 1953; for text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1953*, pp. 813–822, or Department of State *Bulletin*, Dec. 21, 1953, pp. 847–851.

same time, as required by U.S. interest, should furnish assistance needed to support and accelerate economic development in Latin America, and by this and other appropriate means demonstrate U.S. desire to aid Latin American efforts to achieve economic progress.

11. Specifically, the following emerging problems and possible future actions require attention:

a. Latin America will be greatly concerned with the results of the U.S. policy announced at Rio of assuring the financing of all sound Latin American economic development projects. It is important that this policy be implemented promptly and vigorously.

b. The Latin American press, since the Rio Conference, has generally not supported the U.S. position at that conference. It is important to take action to gain maximum support for our announced economic policy.

c. The U.S. should strengthen its effort to increase the use of private investment funds, both domestic and foreign, for economic development in Latin America. In this connection, a renewed effort is planned to secure Latin American participation in the Investment Guaranty Program,[4] and steps should be taken to obtain necessary Congressional action on the Rio Economic Conference resolution on tax reduction.[5]

d. The Soviet Union will continue its vigorous program indoctrinating Latin American labor with communist ideals. The U.S. should continue to develop its labor program for Latin America to meet this threat.

e. Implementation of the policy of extending credit for the sale of military equipment to Latin America has been severely handicapped. These sales have been carried out to date only through the use of regular Department of Defense funds. Solution of the problem apparently requires simplified procedures for the utilization of MDAP program funds for credit purposes and/or new legislation to provide a more flexible means of financing.

f. Efforts of some Latin American countries to enforce their claims to sovereignty over wide areas of the high seas beyond the three-mile limit recognized by the U.S., the general enthusiasm among the Latin governments over holding an OAS Conference on the Continental Shelf and related matters in 1955 or early 1956 and the important role of Latin American delegations in UN consideration of the subject, require careful review of the U.S. policy and strategy in this regard.

g. In view of the U.S. economic policy as outlined at the Rio Economic Conference, attention should be given to the need for maintaining continuity in the technical cooperation and economic assistance programs in Latin America.

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[4] For information on the referenced program, see documentation concerning U.S. foreign economic policy in volume I. For additional information, see *Staff Papers Presented to the Commission on Foreign Economic Policy* (Washington, 1954), pp. 126–134.

[5] Apparent reference to Resolution 69/54 ("Taxation and Tax Treaties"), approved on Dec. 2, 1954; for text, see *Report of the United States Delegation to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, Quitandinha, Brazil, November 22 to December 2, 1954* (Washington, 1954), p. 68, hereinafter cited as *USDel Report: Quitandinha.*

h. The probable introduction of legislation to limit imports of petroleum as a measure to protect domestic fuel producers, primarily at the expense of Venezuela, will require serious attention from the Executive Branch.

i. The reintroduction of legislation in Congress to increase the domestic sugar industry's share of the U.S. market is to be expected. If adopted, it would result in a proportionate reduction of foreign suppliers and would adversely affect the economy of Cuba.

j. Brazil is in the course of striving to level off an inflationary trend, and Chile is faced with a continuation of rapid inflation. Decisions will be required regarding the appropriate actions which the United States should take to support these countries.

k. Efforts to secure the base facilities in Brazil[6] requested by Defense may cause the Brazilians to press their request for increased military assistance or other concessions. A decision will be required on these requests.

l. The question of opening negotiations with Argentina for a Bilateral Military Assistance Agreement has been raised and will require special consideration in the light of our relations with Argentina and her neighbors, and of public opinion in this country.

m. There are likely to be continuing efforts to overthrow the Figueres Government in Costa Rica, and Costa Rica may in consequence call for our assistance under the Rio Treaty.

n. In light of significant requests for assistance and limited appropriations for military assistance in Latin America, the Joint Chiefs of Staff have undertaken a general reappraisal of military objectives and programs in Latin America.

D. EXTENT OF AGENCY INTERESTS

12. The Department of Commerce and the Treasury Department fully participated in the deliberations of the Working Group, including the preparation of this report.

Annex A

ANNEX "A"—DETAILED DEVELOPMENT OF MAJOR ACTIONS

STATEMENT OF ACTIONS BY PARAGRAPHS OF NSC 5432/1

Para. 5a. Greater Utilization of Organization of American States

The Organization of American States was used as a means of achieving our objectives in the case of communist intervention in Guatemala. After the arrival from Poland on May 15 in Guatemala of a substantial shipment of arms, the United States initiated consultations with all Latin American Governments, except Guatemala. Following these consultations, the Council of the Organization of American States voted almost unanimously (Ecuador voted against; Uruguay abstained) to convoke a Meeting of Ministers of Foreign Affairs. The Council of the OAS postponed the meeting *sine die* because the revolution in Guatemala overthrew the communist-controlled Government.

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[6] Regarding this subject, see the memorandum by Mr. Holland, July 12, p. 653.

The revolution in Guatemala caused the communist-controlled Arbenz Government to appeal to the United Nations Security Council and to the Inter-American Peace Committee of the OAS alleging aggression on the part of Honduras and Nicaragua, supported by other foreign nations. The United States took the position that the Organization of American States was ready, willing and competent to respond to the appeal. The Security Council voted (Soviet Union against), in effect, to leave the matter to the OAS. The Inter-American Peace Committee prepared to investigate, but before the Committee arrived in Guatemala, the new government of that country indicated that the controversy requiring the investigation had ceased to exist.

Para. 5b. Increasing Financial Support of Inter-American Organizations

Funds for increased contributions to inter-American organizations of approximately $250,000 have been included in the Fiscal Year 1956 budget. Larger increases which had been proposed were reduced when it became apparent that the Latin American governments could not match in Fiscal Year 1956 increased contributions from the United States.

The United States has supported increased utilization of the OAS for technical cooperation and obtained funds to increase our contribution to the OAS Technical Cooperation Program from $1 million to $1.5 million.

Para. 5c. Prior Consultation with Latin American Governments

The United States Delegation to the sessions of the UN General Assembly continues to consult with Latin American delegates on issues before the United Nations. Argentina and Uruguay have urged consultation concerning disposal of U.S. agricultural surpluses because of the effect such disposal has on their major export commodities. The U.S. has agreed to consultations but not to the extent these exporting countries desire.

Consultation with Latin American Governments on the Guatemala situation is discussed under Paragraph 5*a*.

Para. 5d. Consideration of Latin American Problems at Highest Government Levels

A Sub-Cabinet Committee was created for the purpose of studying our economic relations with Latin America and recommending the position which the U.S. should take with respect to the agenda and proposals likely to be considered at the Rio Economic Conference. The Assistant Secretary of State for Inter-American Affairs[7] visited the heads of all governments in South America and Mexico[8] for the purpose of explaining and gaining acceptance for the policies which had been developed by this Committee. While the U.S. Delegation found it necessary to abstain on a number of the resolutions adopted by the Rio Economic Conference, abstention was explained in terms which were sympathetically received and understood by other delegations. The composition of the United States Delegation to the Rio Economic Conference included more ranking government officials than have attended previous conferences of this nature. It was headed by the Secretary of the Treasury[9] and included the Under Secretary of State[10] and a number of other officials of sub-cabinet rank.

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[7] Henry F. Holland.

Our relations with the Latin American countries continued to be generally favorable although there was increasing criticism of United States economic policy which reached a climax just prior to the Rio Economic Conference. Developments in relations with individual countries worthy of comment included the following:

(1) Relations with Argentina continued favorable during the period, but our Ambassador[11] reports that it is becoming increasingly necessary for the United States to reciprocate Argentine cooperation by meeting some of Argentina's economic desires or offering tangible assistance, e.g., a military assistance program. The Export–Import Bank has sent a survey mission to Argentina[12] to look into projects proposed by Argentina and has approved in principal a credit for a steel mill blast furnace. But other actions by the U.S. have so far been adverse to Argentina's desires, i.e., a quota has been imposed on the importation of oats and a quota on tung oil and tung nuts was avoided only by the voluntary agreement of Argentina and Paraguay to limit shipments to the U.S.

(2) During the period November 8–17, we reviewed with a Cuban Delegation our economic relations with Cuba. We were unable to accede to certain of Cuba's requests because they would require Congressional action, e.g., an increase in Cuba's sugar quota and tariff reductions on Cuban products. We made no commitments on other requests to purchase Cuban minerals for the stockpile and include Cuba in the offshore procurement program. Further discussions are to be held on the rice agreement and a possible double taxation treaty. Cuba agreed to seek early solutions to several pending U.S. problems pending in Cuba, e.g., GATT violations, debts owed by Cuba to private U.S. citizens. The Cubans were afforded a sympathetic hearing, however, and the discussions ended in an atmosphere of cordiality.

(3) The President of El Salvador[13] received through his Ambassador[14] in Washington a personal letter from the President on November

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[8] Assistant Secretary Holland's trip took place between Sept. 5 and Oct. 10, 1954; extensive documentation is in file 110.15 HO for 1954.

[9] George M. Humphrey.

[10] Herbert Hoover, Jr.

[11] Albert F. Nufer.

[12] Apparent reference to the Export–Import Bank survey mission which visited Argentina from July 27 to Aug. 11, 1954; pertinent documents are in file 103 XMB.

[13] Lt. Col. Oscar Osorio.

[14] Héctor David Castro.

10[15] commending him for his role in bringing a peaceful settlement among Guatemalan leaders after the collapse of the communist-controlled Guatemalan Government. This exchange of letters between the two Presidents made a highly favorable impression in El Salvador.

(4) There was a marked improvement in our relations with Guatemala as a result of the change in Government in that country. Arrangements were made to permit Guatemala to purchase military equipment in the United States; credit terms are being granted on individual cases. A grant military assistance program is being considered. An economic program of over $6 million was offered which includes funds to implement an agreement looking toward the completion of the Inter-American Highway in Guatemala.

(5) From September 1953 to August 1954, representatives of the United States and Panama were engaged in a full-scale review of problems in United States-Panama relations. Based on these negotiations, a new treaty with Panama has been drafted[16] and is to be signed in January.[17] In the course of these negotiations, representatives of Panama have been received by both the President and the Secretary of State.

(6) Our relations with Venezuela had deteriorated because of our support of Costa Rica and our action in granting Betancourt, ex-President of Venezuela, a visa to the U.S. The Assistant Secretary of State for inter-American Affairs reviewed our relations with Venezuela's President[18] in October and particularly our attitude with respect to Costa Rica. At that time the President of Venezuela was advised of the plans of the Department of the Army to award him the Legion of Merit.[19] The discussions and the award had the desired effect because U.S. relations with Venezuela promptly took a turn for the better.

A Delegation of United States officials—including the Assistant Secretary of State for Inter-American Affairs, the United States Representative to the Inter-American Economic and Social Council,[20] Senator Bourke Hickenlooper, representing the Senate Committee on Foreign Relations, and Representative Clifford B. McIntire, representing the House Committee on Agriculture, participated in the inauguration of the Cochabamba-Santa Cruz Highway in Bolivia which was financed in part by the Export-Import Bank and built by a United States firm.

The Joint Mexico-United States Defense Commission visited Continental Air Defense Command at Colorado Springs for extensive briefing and demonstrations on common air defense problems and procedures.

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[15] No such letter has been identified.

[16] The draft is not printed.

[17] Reference is to the treaty of mutual understanding and cooperation and memorandum of understandings reached, signed at Panama, Jan. 25, 1955, and entered into force, Aug. 23, 1955; for text, see TIAS No. 3297 or 6 UST (pt. 2) 2273.

[18] Col. Marcos Pérez Jiménez.

[19] Ambassador Warren presented the Legion of Merit award to President Pérez Jiménez at Caracas on Nov. 12, 1954.

[20] Merwin L. Bohan.

The Secretary of Defense [21] has accepted an invitation of the President of Colombia [22] to visit that country in January of 1955.

The President of Haiti [23] has accepted an official invitation to visit the U.S. in January, 1955.

Para. 5e. Refraining from Unilateral Action

As noted under 5*a.* above, the United States sought a solution of the Guatemalan problem through the Organization of American States. The United States has also resisted efforts of local factions to seek United States approval of proposed solutions of the indecisive Presidential elections in Honduras [24] in which none of the three presidential candidates received the required majority to be elected.

Para. 5f. Support of U.S. as Criterion for Aid

The outstanding example of taking account of the willingness and ability of a Latin American country to cooperate with the U.S. in determining the extent of U.S. assistance is Guatemala. The extent of assistance to the new Guatemalan Government is outlined under 5*d.* above and is in sharp contrast to the extremely limited assistance given the previous government. This criterion continues to be applied in Bolivia where it has met with a good degree of success.

Para. 5h. Assistance to Countries Resisting Pressure from Neighbors

The United States has assisted Costa Rica in resisting pressures from the neighboring country of Nicaragua, as well as from Venezuela and the Dominican Republic. Because of outspoken denunciation of Venezuela, the Dominican Republic and Nicaragua, by the President of Costa Rica,[25] the latter has gained the animosity of the Presidents of those countries,[26] which has resulted in encouragement by them to dissident elements in Costa Rica to remove him from office. The United States continues to urge a peaceful solution to the dispute and encourage its submission to the OAS if necessary.

Para. 6. Increased Action Against Communist Penetration

The United States has continued to provide information on communist activities to the Latin American governments with a view to encouraging action to control such activity. Information supplied on a communist-sponsored Latin American Women's Conference held in the latter part of August in Rio de Janeiro was instrumental in exposing the Conference as communist-inspired and discouraging attendance with the result that it was a failure.

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[21] Charles Erwin Wilson.

[22] Gen. Gustavo Rojas Pinilla.

[23] Paul E. Magloire.

[24] The referenced elections took place on Oct. 10, 1954.

[25] José Figueres Ferrer.

[26] Gen. Héctor B. Trujillo Molina, President of the Dominican Republic; Anastasio Somoza García, President of Nicaragua.

Similar action was taken with respect to a Youth Festival that was to be held in Guatemala and communist meetings scheduled in Santiago, Chile, and Vienna. Information on communist meetings and conferences is being made available to Latin American governments on a continuing basis.

As a result of discussions with the Latin American governments on the control of communist travel, Cuba has adopted new passport and visa regulations and Colombia is tightening up on its regulations. Chile has also taken a decision to prevent travel of its nationals to communist-sponsored meetings. The Department of Justice is considering what action the United States can take to carry out its obligation to exchange information on United States communists using tourist cards for international travel. Although these actions constitute some measure of success, communists and communist sympathizers continue to travel within and outside the Hemisphere with relative freedom.

There is an increasing awareness by the Latin American governments of the threat that communism poses to their security and the security of the Free World. Argentina and Chile have stepped up their efforts to control communist activity. Bolivia continues to take an increasingly strong stand against communism; and in Brazil, although communism has made gains, and the Communist Party claims to have held its first Party Congress since 1929, indications are that the new government will deal more strongly with communism than the previous Vargas Government. In Mexico, where the government has tended to side with the communist-controlled Arbenz Government in Guatemala, there is evidence of a new awareness of the dangers of communism.

Para. 7. Colonialism

No action was taken by the United States, during the period, on this course of action. The British Government conferred with British Honduras officials on increased self-government, decided to continue its control over affairs of British Guiana, and proceeded with plans to federate its other territories in the Caribbean. The Dutch Government also proceeded with federation plans for its territories.

Para. 8a. Development of Responsible Organized Labor Movements

The U.S. increased the number of State Department labor officers in Latin America from 5 full-time and 4 part-time employees on May 1st to 6 full-time and 6 part-time employees on December 1st. The number of FOA labor personnel assigned to the region remained at 6 throughout the period. The U.S. also urged the Government of Guatemala to establish conditions for the development of free labor unions; and expanded programs for training of Latin American labor leaders in Puerto Rico and the U.S.

Para. 8b. Control of Shipment of Strategic Materials [27]

The Soviet bloc has shown interest in obtaining from Latin American countries certain strategic list goods and other important raw materials, e.g., copper, sulfur, lead, antimony and mica. Despite efforts by the Bloc to obtain strategic materials, the foreign trade of the Latin American countries in strategic items has continued to be almost entirely confined to the free world. During the period of this report, all countries of Latin America (except Argentina to which the Battle Act sanctions do not apply because Argentina is receiving no aid) reiterated earlier assurances of cooperation in the control of strategic material exports to the Soviet bloc. Chile and Peru are participating in a limited application of the IC/DV system as of November 30, 1954, and informal arrangements with copper-producing firms in Mexico remain in effect. No approach has been made to other countries for the adoption of IC/DV systems. Latin American cooperation in the Transit Authorization Certificate scheme is being considered.

In regard to trade in general between the Latin American Republics and the Soviet bloc, the Soviet Union and its satellites have been playing on Latin American concern over the future stability of markets in the U.S. and criticism of U.S. economic policies. Since the end of the Korean war, the Soviet Union and its satellites have been carrying out a so-called trade offensive in Latin America for both economic and propaganda purposes. The total value of Latin American-Soviet bloc trade is quantitatively small, amounting to about one-half of one percent of all Latin American trade in 1953. Nevertheless, the Soviet bloc has been making significant efforts to augment the importance of this trade in selected countries, especially in Argentina and Uruguay, which have exportable surpluses of agricultural products. Increased Soviet bloc interest is shown most clearly by the USSR and most prominently in the Argentina–USSR trade agreement of 1953 which was renewed in August, 1954. Czechoslovakia and Poland are the principal trading partners for the Soviet bloc although other satellites have become increasingly active.

The communists attempt to maximize the propaganda value of their trade efforts to show how the communist world tries to promote trade and assist in economic development as compared with alleged U.S. efforts to restrict trade. These trade activities also provide a cover for subversive activities and an excuse for requesting establishment or strengthening of diplomatic relations. No Latin American country has re-established diplomatic relations with bloc countries because of these efforts. While the Latin American countries occasionally use the threat of possible increased trade with the Soviet bloc as a bargaining point, e.g., the rumor that Chile, during the copper negotiations, would sell to the Soviet bloc, Latin American countries have concentrated their main efforts on increasing trade with the Free World and urging, particularly in connection with the Rio Economic Conference, more liberal United States trade practices and policies.

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[27] For documentation relating to this subject, see volume I.

Para. 9a. Long-Term Trading Policies

Latin America has been apprehensive regarding the future stability of their markets in the U.S. The U.S. Delegation to the Rio Economic Conference assured the delegates that the U.S. is determined to maintain a strong, healthy economy in the U.S., insuring by this means a growing volume of trade. The U.S. was also able to demonstrate interest in avoiding serious injury to their trade by the following actions:

(1) The President's decision not to accept a recommendation for tariff increases on lead and zinc [28] which would have adversely affected Bolivia, Peru and Mexico, and to assist the domestic industry instead by increasing purchases for stockpile;

(2) The President's decision not to take unilateral action with respect to imposition of a quota on tung oil but instead to negotiate with the countries affected (Argentina and Paraguay) for a voluntary cutback in exports to this market;

(3) The refusal of the Executive Departments to support the domestic sugar industry's request for reopening the Sugar Act [29] with a view to increasing the domestic quotas and proportionately reducing those of foreign suppliers;

(4) U.S. support for resolutions [30] at the Rio Economic Conference calling for a study of the problems affecting coffee and bananas and assurances that the U.S. is prepared to discuss individual commodity problems at any time, with the countries affected.

(5) U.S. announcement at the Rio Economic Conference that it expected to follow a policy of gradual selective reduction of trade barriers.

Para. 9b. Financing Economic Development Projects

The policy stated in this sub-paragraph was announced at the Rio Economic Conference. An Export-Import Bank loan of $100 million for development of the Toquepala Mine in Peru prior to the Conference gave substance to the policy.

Loans by the Export-Import Bank for development purposes were as follows:

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[28] For information relating to the President's decision, see Department of State *Bulletin*, Sept. 6, 1954, pp. 339–340.

[29] Apparent reference to the Sugar Act of 1948 (Public Law 388), approved Aug. 8, 1947; for text, see 61 Stat. 922.

[30] Reference is to Resolutions 33/54 ("Establishment of a Special Committee on Bananas of the Inter-American Economic and Social Council and Calling of a Specialized Inter-American Conference") and 34/54 ("International Coffee Situation") both approved on Dec. 1, 1954; for text, see *USDel Report: Quitandinha*, pp. 12–13, 14.

Export-Import Bank Loan Authorizations for Latin America—May 1–December 1, 1954

Date	Borrower	Terms and Purpose	Thousands of Dollars
	Brazil		
5/25/54	Services Aereos Cruzeiro do Sul Ltda. (Banco do Brazil)	5 years—Aircraft & spare parts (Gen. Dynamics Corp.)	$1,945
11/26/54	Fongra Productos Quimicos, SA	7½ years—Equipment and Materials	1,500
	Ecuador		
6/24/54	Republic of Ecuador (Increase)	15 years—Water Supply System	3,650
	Paraguay		
9/2/54	Republic of Paraguay	To be determined—Water Supply System	7,200
	Peru		
10/28/54	South Peru Copper Co.	20 years Copper Ore development	100,000
		Total	$114,295

Twelve additional loans totaling nearly $6 million were extended.

Export-Import Bank disbursements on all credits outstanding to Latin America including development and other credits, were $36 million for the period January 1 through June 30, 1954. Repayments on all out-standing credits during the same period amounted to $26 million.

During the period under consideration the International Bank authorized $77 million in new loans to Latin American countries as follows:

International Bank Loan Authorizations for Latin America—May 1–December 1, 1954

Date	Borrower	Terms and Purpose	Thousands of Dollars
Aug 24	Mexican Govt	19 years: railway equipment	61,000
Oct 12	El Salvador Govt	16 years: highway construction	11,100
Nov 12	Peru Govt Bank	11 years: agricultural equipment	5,000
		Total	77,100

On November 11, the Chairman of the NAC[31] announced an Administration decision to ask Congressional approval for U.S. participation in a proposed International Finance Corporation with a contemplated capital of $100 million, about one-third to be supplied by the U.S., which would be organized as an affiliate of the International Bank. The time for submitting the proposal to Congress will depend on discussions with the IBRD and its members. The purpose of the Corporation would be to stimulate private investment in under-developed countries throughout the world by making loans without guarantee of member governments as is now required in loans by the International Bank.

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[31] The Secretary of the Treasury also served as Chairman of the NAC.

On November 12, the Export-Import Bank announced the first authorization under a new program for exporter "lines of credits," [32] designed to eliminate the need for an exporter to arrange a new loan to cover each individual sale. Export-Import Bank is discussing participation with the Chase National Bank in a new multi-million dollar export financing corporation.

Effective October 11, 1954, the lending authority of the Export-Import Bank was increased from $4.5 billion to $5 billion. As of November 30, 1954, the uncommitted lending authority of the Bank was $1,713 million.

Para. 9c. Development Assistance Loans

Since the period of time in which to evaluate the effects of courses of action 9*a* and 9*b* has not passed, no steps have been taken during the reporting period to implement the alternative course of action possible under this section.

Para. 9d. Strengthening Technical Cooperation Program

The Technical Cooperation Program has been strengthened and diversified as is evident from the table below. Appropriations for the program have been steadily increased, and these funds are being spent on more diversified activities. Appropriations for fiscal year 1952 were $17.9 million; 1953, $20.4 million; 1954, $22.3 million; and 1955, $26.0 million. During the period July 1–November 1 the number of technicians in the field increased from 589 to 614.

Greater consideration is being given as long-term considerations are consistent with a system of annual appropriations. An indication of this is the increased number of three-year contracts with U.S. universities to assist in developing Latin American universities: In FY 1953, $700,000 was obligated for this purpose; in 1954, $4,300,000; in 1955, $1,700,000; and in 1956, it is planned to obligate $6,200,000.

Responsible Latin American officials publicly support the program, and the Latin American governments have increased their requests for assistance and contributions to the program. Contributions to program funds in FY 1953 were $38,200,000; in 1954, $55,200,000, and in 1955, $61,100,000.

Training in the United States of Latin Americans has been steadily increased and diversified. In Fiscal Year 1953, 560 Latin Americans received training, in Fiscal Year 1954, 1,108; and in Fiscal Year 1955, 1,456. Training grants for Fiscal Year 1955 will include grants as follows: health, 144; agriculture, 254; industry, 664; education, 210; public administration, 155; and community development, 38.

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[32] For information on this subject, see Export-Import Bank of Washington, *Nineteenth Semiannual Report to Congress for the Period July–December 1954* (Washington, 1955), pp. 2–4.

Funds Obligated for Technical Cooperation FY 1952–FY 1955

(Thousands of dollars)

Activity	FY 1952	FY 1953	FY 1954	FY 1955 (estimated)
Agriculture and Natural Resources	6,718 (40.4%)	6,230 (38.1%)	11,224 (47.7%)	8,571 (35.9%)
Health and Sanitation	4,763 (28.6%)	4,467 (27.3%)	4,926 (21.0%)	4,988 (20.9%)
Education	2,755 (16.5%)	1,861 (11.4%)	2,544 (11.0%)	3,820 (16.0%)
Transportation, Power	368 (2.2%)	517 (3.2%)	577 (2.4%)	1,251 (5.2%)
Labor	—[*]	—[*]	483 (2.0%)	819 (3.4%)
Industry, Mining	652 (4.0%)	1,856 (11.4%)	1,175 (5.0%)	2,108 (8.8%)
Public Administration	1,293 (7.8%)	1,346 (8.2%)	1,124 (4.8%)	1,560 (6.5%)
Community Development	90 (.5%)	64 (.4%)	649 (2.7%)	636 (2.7%)
Trade, Invest., Other	—	—	804 (3.4%)	142 (.6%)
Total	16,641	16,343	23,511	23,900[†]

Para. 9e. Grant Economic Assistance

Congressional authorization was obtained for funds to be expended over the next five years to cover the United States' obligation under cooperative agreements for construction of the Inter-American Highway in Central America. Under this authorization, an appropriation of $5,750,000 was obtained for Fiscal Year 1955, and nearly all of this sum has been allocated for specific project agreements with Panama, Costa Rica, Nicaragua and Guatemala. Cooperation with Guatemala was resumed on the Selegua Gap section which will eventually permit travel to San Jose, Costa Rica. In addition to previous authorizations, $4 million was authorized, and $1 million appropriated, for completion of the Rama Road in Nicaragua.

The emergency economic grant program in Bolivia was continued with the ultimate objective of increasing agricultural production and otherwise diversifying the country's economy to decrease its dependence on tin exports. At the same time the program provides food, primarily from United States surplus stocks, which is required because Bolivia lacks the foreign exchange necessary to continue normal food imports. Emergency economic aid was extended to Guatemala after the revolution and to Haiti and Honduras after the recent hurricanes. These programs involved a total of $7,632,000 of Mutual Security funds and $3,430,000 in surplus agricultural products under PL 480.[33] An additional $700,000 of Mutual Security funds is being spent for Christmas parcels delivered in Latin America by CARE and other voluntary agencies.

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[*] Labor was included with Industry, Mining and Labor in FY 1952 and FY 1953. [Footnote in the source text.]

[†] Excludes L.A. share in world-wide projects, voluntary agency programs and other special programs. [Footnote in the source text.]

Para. 9f. Improvement of Investment Climate

Efforts to encourage the Latin American countries in these directions are continuing. For example, (1) Haiti was dissuaded from establishing an oil refinery with monopoly privileges; (2) in Chile a plan of economic "rectification" has been presented to the Congress in response to constant prodding from the U.S.; (3) in Argentina, progress has been made toward extension of certain of the provisions for repatriation of capital and dividends on new investments to cover old investments; (4) in Panama the United Fruit Company took the initiative in negotiating with the Panamanian Government a 32-year contract which provides increased benefits to the Government; (5) Peru, in November, signed a lend-lease agreement [34] covering the balance of $2.8 million owed to the U.S., thus acknowledging a contractual obligation of long standing and eliminating an obstacle to receiving credit from the U.S.

Activities of U.S. agencies, designed to advance the accomplishment of this objective, include: (1) reporting on foreign private investment in Latin America; (2) providing information on investment opportunities including the issuance of investment handbooks; and (3) planning for a major private investment conference in New Orleans next February to be attended by U.S. and Latin American firms and institutions.

Negotiations with Honduras on a double taxation treaty were virtually completed although the political situation there has held up its signature.[35] Preliminary discussions on such a treaty were undertaken with Nicaragua.

Para. 9g. Regional Economic Actions and Groupings

Latin American proposals for the creation of regional economic actions and groupings were given detailed consideration by the Sub-Cabinet Committee in formulating the U.S. position for the Rio Economic Conference:

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[33] The Agricultural Trade Development and Assistance Act of 1954 was popularly referred to as PL 480.

[34] The exchange of notes constituting the agreement, signed at Lima, Nov. 25, 1954, were transmitted to the Department of State under cover of despatch 266, from Lima, dated Nov. 29, 1954, not printed. (723.56/11-2954)

[35] A convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income was signed by the United States and Honduras at Washington, June 25, 1956, and it entered into force, Feb. 6, 1957 (operative retroactively to Jan. 1, 1957); for text, see TIAS No. 3766 or 8 UST 219.

(1) One proposal related to establishment of an Inter-American financial institution which the U.S. believed would duplicate existing facilities. The U.S. did not feel it could join the proposed institution but offered to assist through consultation and furnishing technical information.

(2) With respect to an international entity to promote Inter-American cooperation in industrial and technological productivity, the U.S. declined to participate because it considered a new institute unnecessary. The U.S. offered to provide technical advice and consultation.

(3) Proposals were made for consultations among the central banks of the American republics to determine the feasibility of financial arrangements to deal with temporary difficulties in balance of payments and also of revising the quotas of Latin American countries in the International Monetary Fund. The U.S. abstained, partly because it was not prepared to increase its quota to the Fund but indicated that the studies which might result from the resolution would have our good will and technical cooperation.

(4) The Rio Economic Conference (including U.S. approval) recommended a study of the possibility of intensifying regional trade through special customs arrangements in harmony with existing bilateral and multilateral agreements including future revisions thereof.

Para. 9h. Use of Agricultural Trade Development and Assistance to Obtain Non-Deteriorating Assets

No agreements have been made with any Latin American country under the Agricultural Trade Development and Assistance Act of 1954. However, authorization has been given to proceed with negotiations with Brazil, Chile and Peru for programs amounting to approximately $30, $8 and $6 million, respectively, and it is anticipated that repayment will be made, in part, in strategic and critical materials.

Para. 9i. Diversification of Latin American Economies

Considerable diversification has been achieved in the agricultural field. Programs for industrial diversification are being prepared, especially as regards small industry, for countries where it is appropriate.

In fields requiring large capital investments, principal reliance for increased diversification falls upon private investors. The following represent new industries in the countries referred to and are typical of such activities in Latin America: (1) in the Dominican Republic new drydock facilities are being erected by a Florida company. The National Gypsum Company and the U.S. Gypsum Company are erecting a large plant. The South Puerto Rico Sugar Company is erecting a large plant to make furfural from sugar cane bagasse; [36] (2) in Haiti, the Reynolds Metals Company has opened a road to its bauxite deposits in preparation for mining operations in the near future; [37] (3) in Peru, American

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[36] Documents pertaining to this subject are in file 839.235.

[37] Documents relating to this subject are in file 838.2569.

Smelting and Refining will soon begin the development of its copper properties in the south, which will assist materially in the development of the surrounding area; (4) a new paper box plant is being constructed in Mexico.

Para. 10. Encouragement of Fiscal, Budgetary and Other Measures

The U.S. has continued bilateral discussions with Brazil and Chile on their budgetary and fiscal problems. Chile has sought advice from the International Monetary Fund on reforming its exchange control system and, as a preliminary step, altered the peso dollar rate from 110 to 1 to 200 to 1 on November 10.

The International Bank for Reconstruction and Development and the International Monetary Fund continue to advise various Latin American countries, including Costa Rica, Honduras, Nicaragua, El Salvador, Panama and Peru, on budget, fiscal and other measures essential to economic progress. Guatemalan requests of the U.S. for such assistance are being considered.

Treasury officials have consulted with financial representatives from Brazil, Mexico and Peru concerning their internal and foreign payments situations, including visiting each of these countries for discussions. The Secretary of the Treasury, at the Annual Meetings of the Fund and International Bank and at the Rio Economic Conference, also urged the adoption of policies which would contribute to economic stability.

The United States is considering a Mexican request to convert the existing Stabilization Agreement into a direct, long-term loan of $75 million for the purpose of supporting the peso at its present rate.

The Technical Cooperation Program has increased training in the general field of public administration, thereby encouraging improvements in fiscal and budgetary operations.

During this period, the only drawings by Latin American countries on the International Monetary Fund have been $22.5 million drawn by Mexico shortly after a standby arrangement for $50 million was made with the Fund on April 16, 1954. A possible drawing by Chile is now being discussed. At the end of September 1954 (latest data available), cumulative net drawings on the Fund by Latin American countries were as follows:

Country	*Millions of Dollars*
Bolivia	2.5
Brazil	65.5
Chile	8.8
Mexico	22.5
Paraguay	.9
	100.2

The standby agreement with Mexico, originally authorized for a six months' period, was extended on October 16 for an additional 12 months. There is also in effect a one-year standby agreement with Peru for $12.5 million, established February 17, 1954.

Para. 11. Information Program and Related Activities

The U.S. Information Agency total dollar support for its programs in Latin America over the period 1954–56 is as follows:

1954	$5,197,000	
1955	5,253,000	
1956	7,490,000	(est.)

The 1955 program, while showing only a minor increase in funds over 1954, has during the first six months of the fiscal year been reoriented so as to deliver more impact in the priority countries such as Brazil, Chile, Bolivia and Guatemala. The President's "Atoms for Peace" proposal, the Rio Economic Conference, and the pertinent recommendations of the Milton Eisenhower report on Latin America, have all received continuing emphasis in Agency planning and output. Specific plans for a cooperative information project with Puerto Rico were set in motion.

The FY 1955 program is concentrated on three basic tasks: (*a*) expounding the free enterprise system and inter-American economic interdependence; (*b*) exposing the threat of Communism and its influence in the area; and (*c*) demonstrating the positive values of democracy as exemplified by American life and culture. Among the specific projects which have been put in motion during the past six months to support these three themes are the following:

(1) *Economic Interdependence.* A definable Latin American Economic Information Project was established in July, involving both field and media production of materials. Production has been undertaken on six pamphlets in Spanish and Portuguese dealing with the role of private investment in the development of the Americas, with provision for 200,000 copies of each for distribution in Latin America. Production has commenced on six economic posters paralleling the subject matter of these pamphlets and will be produced in quantities permitting widespread distribution. Writer-photographer teams are now completing their assignments throughout Latin America of collecting material on which USIS field output will be based in support of exploitable aspects of FOA activities. Production of a series of 14 half-hour dramatic programs is being completed with the current delivery of the first two scripts. Production of two films entitled "New Horizons" and "Latin American Economic Highlights for 1954" is about 50% completed. An economic bookshelf has been selected, demonstration sets sent to the field for presentation, and selected titles will be translated and published under contracts now being negotiated in Mexico. One illustrated book on the U.S. geography and growth, produced by IPS, has been translat-

ed into Spanish and Portuguese and will be distributed in volume. A second illustrated book on the U.S. economy has been contracted for and preliminary draft text prepared. Two new films on hemisphere economic interdependence are about 50% completed; seven short films relating to development of underdeveloped areas, made by the Puerto Rican government, are being purchased for distribution to the field; a series of films on FOA activities in Brazil, Chile, Bolivia, Peru and Ecuador is about 40% completed; a film on FOA in Haiti has been completed and is ready for the field; a film on a visit to the U.S. by directors of Brazilian agricultural schools to the U.S. has been completed; a film on establishment of labor unions in Honduras has been completed. At the Rio Economic Conference, intensive news coverage was provided at the Conference by a five-man team from the Agency, assisted by USIS Rio; tapes of interviews, photos, newsreel footage and special film footage, and press features were prepared on the spot and sent to the Agency as well as forwarded direct to other posts in the area for fast coverage. Seven of thirteen monthly newsreels produced locally by USIS Brazil have been released for theatrical distribution in that country; contracts are being negotiated in Mexico for the translation and publication of books especially selected to meet objectives under the theme of economic interdependency.

(2) *Exposing Communism.* Production of six anti-Communist posters and six new anti-Communist pamphlets is under way. USIS Mexico produced a basically anti-Communist cartoon book for Central American posts to the number of 90,000 copies, and kept this area supplied with political cartoons by Latin American artists. Two anti-Communist cartoon strips are produced and appear in from 300 to 350 Latin American newspapers. Scripts for a series of 26 anti-Communist dramatic radio shows were furnished Cuba. Ten similar scripts were furnished Guatemala. The "Fall of the Titan" appeared in a recorded four-part series. A 14 part packaged dramatic anti-Communist show and a complete 13 part show were also sent to the field for broadcasts. The PAO in Panama recorded a series of 18 interviews in Spanish with a Polish ex-slave laborer and also made arrangements for the Caribbean Forces Network to record a similar series in English. Over 800 books on anti-Communism were recently sent to Latin America. Four anti-Communist books were translated into Spanish and six into Portuguese. One anti-Communist film on Guatemala was produced and another was acquired and circulated; six from other areas were distributed.

(3) *Positive Values of Democracy.* The Binational Center program has been strengthened by reorganizing the grantee personnel system, basing salary scales and allowances on those of the Foreign Service Staff, in order to give more security to employees and enable the Agency to retain and recruit outstanding center personnel. Approximately ten major exhibits on various phases of American life were shipped to the field as well as a number of smaller special requests. At least 96,000 books and publications were sent to the field for Center and presentation use (including economic and anti-Communist). Five of the "Our Times" film series were furnished. An historical film "Coast to Coast" is being processed for distribution. "Report to Youth" is nearing completion. Nine books on positive themes were translated into Spanish and six into Portuguese. From 75 to 100 radio "Special Events" were

furnished the field, including interviews, special programs and musical transcriptions or special musical events.

(4) *Other projects.* In support of the President's "Atoms for Peace" proposal, USIA has conducted an intense effort, utilizing its press, radio, motion picture and book programs. Of special significance is the exhibit entitled "Atoms for the Benefit of Mankind" which has been showing in Sao Paulo since August in participation with the 400th anniversary celebration of the city. By December the total attendance at this exhibit had reached 300,000, including visitors from throughout the world. A color film on this exhibit has been completed and is being readied for film distribution. Also, a panel exhibit entitled "Atoms for Peace" has been sent to each post in Latin America.

Special "short term" assistance has been given to USIS Chile to support the U.S. position in relation to the critical economic situation existing in that country. Similar support was given to USIS Brazil before and during the recent elections, including the production and use of a study of the ties existing between the Brazilian Communists and Soviet Russia.

The Wireless File has been converted to a Spanish language news service and other steps have been taken to expedite its local distribution to newspapers and radio stations.

An agreement was reached with the government of Puerto Rico providing for the cooperation of USIA in distributing films, pamphlets and other materials support U.S. objectives produced under the Puerto Rican Information program. Such materials are already being used overseas by USIA and are particularly effective in Latin America.

The Agency cooperated with a task force during the Guatemalan crisis in selecting documentary material, through the cooperation of the new anti-communist government, which was used in the output of the Agency. At the time of, and subsequent to the Guatemalan Revolution, the Agency sent guidances, books, pamphlets, press and radio commentaries and stories to the field to enable field personnel to understand and then publicize the extent of Moscow ties to the Arbenz regime and elsewhere in Latin America.

As a result of provision written into the Exchange of Persons program appropriation by the Congress, an increase in the Latin American program was required. The total allocation to Latin America was increased to $1,818,534 (FY 1955) from $1,027,714 (FY 1954). Allocation under this appropriation for the American Schools in Latin American areas went to $175,000 (FY 1955) from $128,250 (FY 1954). Particular emphasis is being placed on leader awards and grants in educational and informational fields.

Para. 12. Overt and Covert Action Against Communist and other Anti-U.S. Activities

Overt activities are described under paragraphs 6 and 11 above.

Para. 13. Encourage acceptance of concept that each Latin American Government is responsible for maximum contribution to (1) internal security, (2) self-defense, and (3) the allied defense effort

All progress reported on all military courses of action constitutes progress with respect to this specific course of action.

Colombia has continued to maintain one frigate in support of the United Nations' defense effort in the Far East.

No progress has been made with respect to the U.S. desire for resumption of military staff talks with Venezuela.

Para. 14. Provision of military assistance consistent with agreed defense plans

The Department of State and Defense are exploring the possibility of extending grant military assistance to Guatemala. To this end a survey of the capabilities of Guatemala to absorb, utilize and maintain U.S. military equipment that might be offered under the provisions of Section 105, Public Law 665,[38] was conducted. The results of the survey are being studied by the Department of Defense.

Bilateral Military Assistance Agreements were signed with Nicaragua and Honduras in April and May respectively. Each country has received U.S. equipment for one infantry battalion.

Negotiations for a bilateral Military Assistance Agreement with Haiti will begin in January.

Following the decision of the Colombian Government to withdraw its infantry battalion from Korea, it was decided to permit the battalion to retain its equipment provided the Colombian Government would agree to maintain the battalion as a unit under the MDAP program. The Colombian Government agreed, and the bilateral military plan[39] has been amended accordingly. Because the unit retained its equipment, it is a militarily effective unit immediately able to perform its mission.

MDA programs are continuing in Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Peru, and Uruguay.

Army MDA programs have been initiated in Honduras and Nicaragua. A naval MDA program was commenced in Uruguay.

In summary, the combined force goals for which the U.S. has furnished military equipment through MDAP as of 1 December 1954 are:

Army —1 Regimental Combat Team
—8 Anti-aircraft Battalions
—3 Infantry Battalions
—1 Recon. Sq. (Mecz)
Navy —19 Warships
—44 Other Vessels
—1 Composite Recon. Squadron

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[38] Mutual Security Act of 1954, approved Aug. 26, 1954; for text, see 68 Stat. 832.

[39] For documentation on the military plan, see pp. 766 ff.

Air Force —20 Combat Squadrons
—1 Transport Squadron

The value of military grant aid shipments to Latin America during the period 1 May 1954–30 September 1954 was $15.6 millions.

Value of grant aid obligated since the program began, by country, are as follows: (as of 30 September 1954)

Country	*In Millions of Dollars*
Brazil	$78.0*
Chile	10.5
Colombia	7.5
Cuba	1.2
Dominican Republic	.1
Ecuador	4.8
Honduras	.4
Nicaragua	.4
Peru	7.0
Uruguay	.5
Total	$110.4

The Department of Defense is studying requests for increased support of Brazilian and Cuban Forces.

Para. 15. Assumption by the U.S. of responsibility for military operations and acceptance of U.S. military control by other nations

Recognition of U.S. responsibility by Latin American Governments is realized upon consummation of bilateral military assistance agreements, and in the approval by Latin American countries of the IADB General Military Plan for Defense of the American Continent. To date all countries except Mexico, Venezuela, and Guatemala have approved this Plan.

The United States and Netherlands military negotiators reached an agreement on 11 November [40] whereby the United States would have sole responsibility for protecting the sea communications in the Caribbean, and the Netherlands Government would have responsibility for the local defense of its territory in that area.

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*Includes $52.6 millions of W.W. II lend-lease ships the title to which was transferred to Brazil. [Footnote in the source text.]

[40] The text of the referenced agreement is printed on p. 179.

Para. 16. Reciprocal Use of Bases Established with U.S. Aid

The Department of Defense has forwarded to the Department of State, for negotiation with Brazil, a new base rights agreement[41] which would guarantee continued use of existing facilities and acquire a guided missile observation station and a communication relay facility.

Para. 18. Protection of Sources and Processing Facilities (Strategic Materials)

No progress to report.

Para. 19. Impact of Military Effort on Economic Stability

All U.S. agencies continue to consider the economic conditions existing in those countries seeking grant and reimbursable assistance. However, the Latin appetite for military equipment remains an obstacle to effective U.S. efforts to keep purchases of military equipment within their economic capacity. U.S. denial of military equipment in consonance with this course of action, along with other reasons, has often resulted in acquisition from sources other than U.S. to the distinct detriment of U.S. standardization objectives as set forth in para. 20*e*. Examples:

(1) Substantial purchases by Ecuador including jets from Great Britain.
(2) Colombia's contract with Sweden for two ships.
(3) Chile's barter with Great Britain—copper for jets.

Para. 20a. Continued Planning within Multilateral and Bilateral Military Agencies

Bolivia, El Salvador, Nicaragua, and Paraguay approved the IADB general military plan. Guatemala announced intent to do so.

U.S. intelligence on Soviet capabilities was provided the IADB for planning purposes.

A new mapping and charting agreement between the United States and Mexico is under consideration by JMUSDC.

Brazil and the U.S. are considering the formation of a Combined Board on Defense, Brazil-United States (CBD-BUS).

Para. 20b. Military Training Missions

A new Army Mission Agreement was signed with El Salvador on September 23.[42] The Army Mission Agreement with Colombia was extended indefinitely[43] or until such time as it is superseded by an Agreement being negotiated. Negotiations are still proceeding with Bolivia, Ecuador, Guatemala, Paraguay and Peru[44] for the extension of existing agreements or signing of new ones.

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[41] Not printed.

[42] For text of the agreement providing for a U.S. Army Mission to El Salvador, signed at San Salvador, Sept. 23, 1954, and entered into force, Nov. 17, 1954, see TIAS No. 3144 or 5 UST (pt. 3) 2870.

[43] For text of the exchange of notes, signed at Bogotá, Oct. 6 and Nov. 4, 1954, and entered into force on the latter date, extending indefinitely the agreements of Oct. 14, 1946, providing for a U.S. Naval Mission to Colombia, and Feb. 21, 1949, providing for U.S. Army and Air Force Missions to Colombia, see TIAS No. 3146 or 5 UST (pt. 3) 2904.

The Navy Mission Agreements with Brazil,[45] Colombia, and Ecuador[46] were extended indefinitely but a new agreement is being negotiated with Colombia which, when signed, will supersede the existing agreement.

The Air Force Agreement with Colombia was recently extended indefinitely but negotiations are continuing on a new agreement which, when signed, will supersede the existing agreement. Negotiations are continuing on new agreements or extension of existing agreements with Bolivia,[47] Ecuador, Guatemala and Paraguay.

Bolivia, Chile, Colombia, Honduras, Nicaragua and Venezuela requested the assignment of additional personnel to Army Missions. Manpower limitations have, to date, prevented fulfillment of all requests.

An additional officer has been assigned to the U.S. Naval Advisory Group in Argentina.

Colombia has requested augmentation of the U.S. Naval Mission to include Marine Corps personnel with a view to development of a Colombian Marine Corps.

The U.S. Navy is endeavoring to fulfill an Ecuadoran request for additional mission personnel.

Para. 20c. Military Training in U.S. Service Schools and Training Centers

U.S. policy with respect to training under the grant aid program was broadened to permit payment of transportation, per diem and course costs for all Latin American trainees.

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[44] For text of the exchange of notes, signed at Washington, Mar. 18 and Apr. 20, 1954, and entered into force on the latter date (operative retroactively to June 20, 1953), extending the agreement of June 20, 1949, providing for the services of a U.S. Army Mission in Peru, see TIAS No. 2997 or 5 UST (pt. 2) 1290.

[45] For text of the exchange of notes, signed at Rio de Janeiro, June 29 and Oct. 9, 1954, and entered into force on the latter date (operative retroactively to May 7, 1954), extending and amending the agreement of May 7, 1942, providing for a U.S. Naval Mission to Brazil, see TIAS No. 3130 or 5 UST (pt. 3) 2735.

[46] For text of the exchange of notes, signed at Washington, Aug. 30 and Dec. 6, 1954, and entered into force on the latter date, extending and amending the agreement of Dec. 12, 1940, as modified and extended, providing for a U.S. Naval Mission to Ecuador, see TIAS No. 3220 or 6 UST 777.

[47] For text of the exchange of notes, signed at La Paz, Dec. 3 and 22, 1954, and entered into force on the latter date (operative retroactively to Sept. 4, 1953), extending the agreement of Sept. 4, 1941, as extended and amended, providing for the services of a U.S. military aviation mission in Bolivia, see TIAS No. 3192 or 6 UST 575.

The Army provided training in the U.S. for 136 Latin Americans during FY 1954. The quota for FY 1955 has been increased 75%. Additionally, 714 Latin Americans received training in the U.S. Army Caribbean School located in the Canal Zone, during FY 1954. The quota for FY 1955 has been increased 30%.

The U.S. Navy allotted quotas for 505 Latin American students to attend Naval Schools in the U.S. during FY 1955.

The USAF provided specialized training in the U.S. for 173 Latin American students during the period of this report. Additionally, 500 Latin American students received training in the USAF school at Albrook AFB, Canal Zone.

Six Latin American students are enrolled in the U.S. Military Academy, and eleven are attending the U.S. Naval Academy. A quota of 20 is authorized at each Academy.

Spaces for Latin American students are authorized by law at the Air Force Academy and applications for admission will be accepted the first year after a full four-year student body is present.

U.S. Ambassadors in Latin America have been requested to advise their host governments concerning the availability of quotas at the Military and Naval Academies.

Para. 20d. Foster closer relations between Latin American and U.S. military personnel

During the period of this report, the military departments were hosts to the following Latin American military dignitaries who accepted official invitations to visit the U.S:

(1) *Army*
Ecuador—Minister of Defense [48]

(2) *Navy*
Argentina—Secretary of the Navy [49]
Mexico—Secretary of the Navy [50]
Venezuela—Chief of Naval Operations

(3) *Air Force*
Chile—Chief of Staff, Air Force
Peru—Air Minister
Venezuela—Chief of Staff, Air Force

The USAF was host for a three-week tour of the United States of 90 Argentine Air Force officers and cadets.

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[48] Maj. Reinaldo Varea Dónoso.

[49] Rear Adm. Aníbal Osvaldo Olivieri.

[50] Gen. Rodolfo Sanchez Taboada.

U.S. military forces in cooperation with the Red Cross participated in disaster relief operations in Costa Rica, Guatemala, and Haiti, and on two occasions each in Panama and Honduras.

The Department of the Army presented, or approved for presentation, ten U.S. military decorations to members of Latin American armed forces in recognition of services rendered to inter-American military collaboration as follows: Brazil, 2; Chile, 1; Colombia, 3; Ecuador, 1; Haiti, 1; Venezuela, 2.

The Commanding General, U.S. Army, Caribbean,[51] representing the U.S. and the UN Command, with a thirty one-man honor guard, participated in the official homecoming ceremonies of the Colombian Battalion from Korea; presented two U.S. military decorations to officers of the battalion; and awarded the Presidential Unit Citation to the battalion for combat actions while serving with the United Nations Command in Korea.

In October the Vice Chief of Staff, U.S. Army,[52] accompanied by the Senior U.S. Army Delegate to the Inter-American Defense Board, visited Argentina, Brazil, Colombia, Peru and Venezuela. They were received by highest government officials in all countries visited.

The Department of the Army sponsored an Inter-American Defense Board visit to Army installations. Troop demonstrations were observed at Fort Jackson, South Carolina, and Fort Bragg, North Carolina.

Para. 20e. Standardization—Facilitating Purchase of U.S. Equipment

The Mutual Security Act of 1954 permits the sale of military equipment on credit, but made no provision for financing such credit. This problem has been temporarily solved by financing such sales with Defense Department funds. The Air Force, in the case of a sale to Peru, and the Army, in the case of a sale to Guatemala, financed the credit from its own funds. In addition to a permanent solution to the financing problem, criteria for granting credit are required. While no particular problem exists with respect to Peru and Venezuela, whose credit standings are good, such countries as Chile, Brazil, Ecuador, etc., which have very unsatisfactory economic situations, pose a real problem.

The Department of Defense has been unable to accede to requests from Latin American countries for the purchase of naval vessels because of the unavailability of the ships that they require. However, in view of the historically close collaboration between the U.S. and Brazil and the significance of contributions desired from Brazil in the way of base facilities (see para. 17 above) the Department of Defense is considering the loan of an escort carrier to Brazil but will not be prepared to supplement such loan with aircraft for carrier employment.

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[51] Maj. Gen. Lionel C. McGarr.

[52] Lt. Gen. Charles L. Bolté.

As of 30 April, Army matériel valued at approximately $16.4 million had been delivered to Latin America under the reimbursable provisions of MDAP. As of 30 September an additional $3.1 million worth had been shipped.

Under the reimbursable provisions of the Mutual Security Act, Colombia purchased six T-33's; Cuba received two T-33's. Three F-51's were delivered to Guatemala and fifty AT-6's were delivered to Brazil.

U.S. Army, Caribbean Demonstration Teams visited Bolivia, Colombia, Costa Rica, Nicaragua, Paraguay, Peru and Venezuela, demonstrating U.S. matériel.

In order to expedite delivery of spare parts, the Army established a procedure whereby emergency requirements for spare parts can be met from Army stocks in the U.S. Caribbean Command.

A U.S. destroyer visited Venezuela during the period 5–10 April 1954 and conducted a series of orientation visits for Venezuelan naval personnel.

A destroyer division exercised with ASW ships and other units of the Brazilian Navy off Rio de Janeiro, Brazil, during the period 21–22 July 1954.

The U.S. military forces are sponsoring a translation program that will supply Spanish speaking military forces in Latin America with selected training publications.

UNITED STATES POLICY REGARDING HEMISPHERE DEFENSE; PROVISION OF ARMAMENTS AND MILITARY ASSISTANCE TO THE OTHER AMERICAN REPUBLICS[1]

720.5 MSP/2-1952 : Circular airgram

The Acting Secretary of State to Diplomatic Offices in the American Republics[2]

SECRET WASHINGTON, February 19, 1952.

Careful note has been taken in the Department of Embassy Lima's informative and thoughtful secret despatch No. 801 of January 29, 1952[3] reporting the interest demonstrated by the Argentine and Chilean Ambassadors in Lima in finding out the nature and amount of prospective U.S. military grant aid to Peru, and also pointing out certain of the difficulties likely to be encountered in administering this program so as to avoid accentuation of intergovernmental distrust and jealousy resulting from concern lest one country be strengthened militarily to the disadvantage of its neighbors. In addition to the Embassy's very appropriate comments to the Ambassador of Chile[4] regarding the basic purposes of the program and the overriding importance of strengthening collective defense against the existing threat to the free world, and references to the manner in which European countries appear to have overcome fears that US aid would lead to imbalances of power disadvantageous to their own security, the following may be helpful as background for discussions of these questions with officials of other American governments: (In view of the general interest in these questions, this message is being repeated to all missions in the other American republics.)

It is important to impress upon those who express concern that US aid will strengthen neighbor *against* neighbor, that a fundamental assumption upon which the program has been developed is that the fortunate condition of peace which has been established in the hemisphere through the faithful observance of inter-American commitments to settle disputes by peaceful means makes it possible, as stated in Resolution IV of the Washington Meeting of Consultation,[5] "for each of the Republics to concentrate the development of its capabilities upon the tasks best adapted to the role each is best qualified to assume in the collective defense against aggression." The US military aid program is not directed at strengthening any American republic *against* another American republic, but toward the defense of the community of American republics against aggression. We believe, in the first place, that the danger of aggression among members of the inter-American community does not exist, but that if by any chance such danger or threat should develop it will be overcome by the effective application of the measures of collective defense established within the inter-American system. While it must be realistically recognized that long-held and time-worn antipathies continue to exist, and the era of distrust and recrimination between certain of the American republics has by no means ended, the fact of the matter is that, as Assistant Secretary Miller stated during the presentation of the Military Assistance Program to Congress, "One of the most conspicuous triumphs of Hemisphere cooperation has been and continues to be the extent to which the threat or use of force in the international relations of the American States has been eliminated." Mr. Miller went on to say, "I believe that we have reached the point where no American state has reason to apprehend the danger of aggression from any other American state."

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 985 ff.

[2] Drafted by Mr. Jamison on Feb. 14; cleared with the Bureau of Inter-American Affairs, the Office of the Special Assistant to the Secretary for Mutual Security Affairs, the Office of South American Affairs, and in substance with the Department of Defense.

[3] Not printed. (723.5 MSP/1-2952)

[4] Félix Nieto del Río.

With reference to questions regarding the nature and amount of assistance to any one government it should be noted that, under present plans, it is not anticipated that information regarding the dollar value of US military assistance to any one Latin American country will be made public, nor will this information be made available to the country receiving aid. Actual assistance will be given in the form of end items of equipment, and services and training aimed at making up deficiencies in units of the armed forces of the recipient which are to be prepared for the performance of missions important to hemisphere defense. The principal basis for comparison of assistance from country to country, therefore, will be with respect to the units of forces being so prepared; variations will be related to the size and importance of the missions the respective governments prepare forces to perform.

For your information only, the bilateral military plans being negotiated along with the Military Assistance Agreements provide that armed forces units which receive US assistance in the form of equipment, training or services will be designated as "Western Hemisphere defense task units" which will participate in missions important to the defense of the Western Hemisphere. Although no definite plans for publicity regarding such units have been made, consideration is being given to the question of whether there are suitable ways in which appropriate information regarding such units can be released, by mutual agreement, in a manner best caculated to insure that the constructive purposes of the program and the objective of strengthening collective defense will be emphasized. Comments of Embassies receiving this airgram on this matter will be appreciated.

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[5] For text of Resolution IV, adopted by the Fourth Meeting of Consultation of Ministers of Foreign Affairs, held in Washington, Mar. 26–Apr. 7, 1951, see *Fourth Meeting of Consultation of Ministers of Foreign Affairs: Proceedings* (Washington, 1951), pp. 240–241.

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795B.5/3-452

The Deputy Secretary of Defense (Foster) to the Secretary of State

TOP SECRET WASHINGTON, March 4, 1952.

DEAR MR. SECRETARY: In his letter of 10 October 1951,[1] the Under Secretary of State [2] sought the concurrence of the Department of Defense in a specific formulation of the reimbursement policy in its application to negotiations with Brazil and other Latin American Governments for troops for Korea. He also recommended that the proposed formulation apply to the Government of Colombia, if that Government were to indicate its inability to maintain, on a current basis, full dollar reimbursement or some other form of settlement for logistic support furnished by the United States.

The proposal put forward by the Under Secretary of State has been given careful consideration both within the Military Departments and the Department of Defense. Early in the consideration of this question, however, it became apparent that a complete review of past experience and practices in the application of the reimbursement policy was essential, if the proposed formulation was to be considered in its proper relationship to the broader aspects of the concept of reimbursement. The outcome of this review established that:

(1) The formulation proposed by the Under Secretary of State is within the terms of the reimbursement policy established by the Defense Department directive of 1 September 1950; [3] but in those cases where the transfer cannot be brought within the terms of Section 408(*e*) of the Mutual Defense Assistance Act,[4] because it is determined that prompt payment in U.S. dollars cannot be made, or payment offered in

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[1] Printed in *Foreign Relations*, 1951, vol. II, p. 1022.

[2] Reference is to James E. Webb, who served as Under Secretary of State, Jan. 27, 1949–Feb. 29, 1952.

[3] Reference is to Secretary of Defense Louis Johnson's memorandum circulated to the military departments and the Joint Chiefs of Staff; a portion of the memorandum is printed in footnote 3, *Foreign Relations*, 1950, vol. I, p. 651.

[4] Reference is to the Mutual Defense Assistance Act of 1949 (Public Law 329), approved Oct. 6, 1949; for text, see 63 Stat. 714.

foreign currency is not readily convertible into dollars, the matter should be referred to the National Security Council for decision; and

(2) The United States, in its capacity as the Unified Command, should be guided hereafter by the following procedure in considering offers of military assistance for Korea:

> (*a*) Upon the receipt of an offer of military assistance, it should be submitted by the Department of State to the Department of Defense for recommendation as to its military acceptability.
>
> (*b*) Simultaneously with (*a*), the Department of State, in cooperation with the Department of the Treasury, Bureau of the Budget and appropriate representatives of the Department of Defense and Military Department concerned, should reach a determination with the offering government as to the basis on which payment will be made. If it is determined that payment will be made on the basis of prompt reimbursement in U.S. dollars or readily convertible foreign currency, the Department of Defense should be informed accordingly. If, on the other hand, it is determined that payment will be made on a basis other than prompt payment in U.S. dollars or readily convertible foreign currency, assuming the military acceptability of the offer, the matter should then be referred by the Department of State to the National Security Council for decision.

It is the view of the Department of Defense that the negotiation of master agreements relating to the participation of foreign contingents in Korea, including the specific question of whether reimbursement will be in U.S. dollars, readily convertible currency or on some other basis, is primarily a political function and should be a responsibility of the Department of State. Accordingly, all cases wherein the negotiation of master agreements either has not been commenced and/or concluded with governments whose forces are receiving U.S. logistic support in Korea, would be transferred to, and be made a responsibility of, the Department of State. Under this arrangement, the Department of State would undertake the necessary negotiations with the Government of Colombia.

It is not intended by the preceding paragraph to affect the responsibility of the Department of Defense, either in the case of presently accepted or future offers of military assistance, for the negotiation of technical and administrative arrangements subsidiary to, and contingent upon, the effecting of master agreements. The appropriate Military Departments should retain responsibility for negotiating the collection and payment of U.S. dollars or readily convertible currency wherever the master agreement negotiated by the Department of State provides for such type of reimbursement.

The foregoing procedure accordingly is submitted to the Department of State for its consideration and concurrence. Similar letters have been addressed to the Secretary of Treasury and Director of the Bureau of the Budget. Appropriate modification in the language of the reimbursement policy will be undertaken by this Department when interdepartmental agreement to the procedures set forth above has been achieved.

Sincerely yours, WILLIAM C. FOSTER

397.5 IA/3–1352

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Chairman of the United States Delegation to the Inter-American Defense Board (Walsh) [1]

SECRET [WASHINGTON,] March 13, 1952.

MY DEAR GENERAL WALSH: Reference is made to Lt. Colonel Sharkey's [2] memorandum of February 14, 1952 [3] requesting that the United States Delegation, Inter-American Defense Board, be given comments on the General Military Plan for the Defense of the American Continent [4] which was prepared pursuant to Resolution III [5] of the Fourth Meeting of Consultation of Ministers of Foreign Affairs of American States. In view of the fact that, as the Secretary of State was informed in a letter from Colonel K. R. Kreps [6] dated February 14, 1952,[7] the Joint Chiefs of Staff have indicated to the Chairman, U.S. Delegation, IADB, that he may inform the Chairman, IADB,[8] that the United States Government has approved the Plan, the following comments of the Bureau of Inter-American Affairs on certain political aspects of the document are forwarded on an informal basis.

It is deemed politically important that the Plan, in providing the general framework for defense planning by the American Republics, should offer adequate sanction or authorization for the development by the United States Government and the Latin American governments concerned of bilateral defense plans of the kind now being negotiated with certain of the Latin American governments in connection with the U.S. military grant aid program. It is assumed that the definition of maritime sectors and the indication of "responsibility for planning and coordination of operations" in the Caribbean–Panama–Galapagos sector (Section V C 2*a* and 2*b*) and the "Detailed Plans of Action" in Section VII are regarded as being adequate to provide such authorization. If this assumption is correct, it would be helpful for this Bureau to be in a position to so explain the matter to representatives of other governments who may raise questions as to this point.

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[1] Drafted by Mr. Jamison on Mar. 12; cleared with the Offices of South American Affairs and Middle American Affairs, the Office of the Special Assistant to the Secretary for Mutual Security Affairs, and Intelligence Adviser Hobart A. Spalding in the Bureau of Inter-American Affairs.

[2] Thomas W. Sharkey.

[3] The referenced memorandum, addressed to Mr. Jamison, is not printed. (397.5 IA/2–1452)

[4] For information on the plan, approved by the Inter-American Defense Board, Nov. 15, 1951 and by the United States, Mar. 20, 1952, see the editorial note, *Foreign Relations*, 1951, vol. II, p. 1028.

[5] For text of the referenced resolution ("Inter-American Military Cooperation"), see *Fourth Meeting of Consultation of Ministers of Foreign Affairs: Proceedings*, pp. 239–240.

[6] Kenneth R. Kreps (USAF), Deputy Director, Executive Office of the Secretary of Defense.

[7] Not printed. (710.5/2–1452)

[8] Lt. Gen. Charles L. Bolté (USA).

It is also believed desirable that it be clearly understood that whatever commitments the United States Government may assume in connection with this Plan are those which have to do with planning of a purely military character. It has been noted, for example, that Section IV B, "Basic Defense Aims", includes a statement to the effect that "to achieve the necessary military defensive capacity it is indispensable . . . to tend toward dispersion throughout the Continent of the present industrial concentrations . . ." and that "this industrial development would be accomplished by stimulating, through mutual, technical and material aid, the creation of new centers and the development of those already existing." However accurate such an estimate may be from a military point of view, it would be politically and economically undesirable for other American States to conclude from the Plan that the United States Government is committed to aid in the accomplishment of such dispersion or industrial decentralization as the other American Republics might desire. Similarly, question is raised with respect to that portion of Section VI, "Basic Objectives" dealing with "Internal Security." Although the footnote to this section makes it appear that it is related exclusively to certain military aspects of the problem, several of the activities suggested, such as "strict inspection of passports," and "planning, organizing, and training for civil defense" would appear to go beyond the strictly military field.

As indicated above, these comments are directed at certain of the aspects of the Plan which might have political importance, and which you may wish to take into consideration in expressing approval of the document.[9]

Sincerely yours,

EDWARD G. MILLER, JR.

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[9] In his reply to Assistant Secretary Miller, dated Mar. 20, 1952, Major General Walsh stated in part the following: "The points which you make are pertinent. I think it would be best not to bring them up specifically in transmitting the U.S. Government approval of the Plan to the Board, but rather to indicate that we are accepting the Plan on a military basis only." (397.5 IA/3-2052)

S/P-NSC files, lot 61 D 167, NSC 56 series

Memorandum by the Deputy Under Secretary of State (Matthews) to the Executive Secretary of the National Security Council (Lay)[1]

TOP SECRET [WASHINGTON,] March 18, 1952.

Subject: Sixth Progress Report on NSC 56/2, "United States Policy Toward Inter-American Military Collaboration."[2]

NSC 56/2 was approved as governmental policy on May 19, 1950. It is requested that this Progress Report as of March 7, 1952 be circulated to the members of the Council for their information.

1. The Mutual Security Act of 1951[3] authorized, and the Congress later made, an appropriation of $38,150,000 to furnish grant military assistance to the other American Republics. This assistance, according to a provision of the Act is to be furnished "only in accordance with defense plans which are found by the President to require the recipient country to participate in missions important to the defense of the Western Hemisphere." The President on December 14 made the finding necessary to authorize the inclusion of eight countries in the military grant aid program for Latin America, paving the way for an approach to be made to the governments of Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Peru and Uruguay to enter into (*a*) negotiation of a Bilateral Military Assistance Agreement required by the Act; and (*b*) to secure their agreement to bilateral military plans related to their performance of missions important to the defense of the hemisphere (generally outside their national territory), and the provision of U.S. assistance in preparation of specific units of their armed forces for that purpose. Bolivia and the Dominican Republic were included in the finding as alternates, while Argentina and Venezuela were included pending the resolution of certain circumstances as indicated below.

The agreements which will be or are being negotiated are similar to those concluded with the NATO countries; and the defense tasks, which are the subject of separate bilateral secret military plans also being negotiated, would, in most cases, involve missions similar to those which the U.S. had to perform in World War II, and which we otherwise would have to perform in the event of aggression against the Western Hemisphere.

Bilateral negotiations to carry out the military grant aid provisions of the Mutual Security Act of 1951 were initiated with Brazil (January 4),

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[1] Drafted by Duncan A. D. Mackay on Mar. 7; cleared with the Offices of South American Affairs and Middle American Affairs, the Office of the Special Assistant to the Secretary for Mutual Security Affairs, the Office of Regional European Affairs, the Munitions Division, and the Department of Defense.

[2] NSC 56/2, dated May 18, 1950, and approved by President Truman on the following day, is printed in *Foreign Relations*, 1950, vol. I, p. 628.

[3] Public Law 165, approved Oct. 10, 1951; for text, see 65 Stat. 373.

Peru (January 7), Ecuador (January 15), Chile and Colombia (January 22), Cuba (January 30), and with Mexico (February 6). Uruguay is the only one of the eight countries approached which has not yet agreed to negotiate, although there is some prospect of initiating negotiations with this country before March 15.

Military Assistance Agreements have now been signed with Ecuador (February 20)[4] and Peru (February 22).[5] In each case a Secret Bilateral Military Plan concerning the defense tasks to be performed and the forces which will be readied with U.S. assistance was initiated [*initialed*].[6] Negotiations with Mexico were suspended (February 23), and there is no prospect that they will be reopened in the foreseeable future. Although the Mexican Government entered into negotiations after their nature had been fully explained, it soon became apparent that their officials had no intention or desire of actually coming to an agreement which would be acceptable under our statutory requirements. Negotiations are continuing with Brazil, Chile, Colombia and Cuba.

Two important Latin American governments, Argentina and Venezuela, were included tentatively in the President's finding, but approaches in each case will not be made, pending the clarification of certain circumstances. Based primarily on military considerations, Argentina was included in the finding, but the political situation in Argentina was of such a nature that negotiations with the country on this subject were delayed until a more appropriate time. Venezuela was included tentatively in the list of countries proposed as recipients of grant military aid, pending verification, when the bilateral military staff conversations with Venezuela are resumed, of the ability and willingness of the Venezuelan Government to pay its own way in procuring the equipment required by those forces which it should support in order to carry out vital hemisphere defense missions.

While the specific missions which all these countries will be asked to agree to undertake are based on a current U.S. war plan, the general concept of this plan is reflected in the Common Defense Scheme for the American Continent,[7] outlined in NSC 56/2, which was developed multilaterally in the Inter-American Defense Board, and is also reflected in the General Military Plan for the Defense of the American Continent. Formal approval of the Common Defense Scheme or of the General Military Plan by each of the countries involved, will be a prerequisite to receipt of military grant aid under this program.

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[4] For text of the military assistance agreement between the United States and Ecuador, signed at Quito, Feb. 20, 1952, and entered into force on the same date, see Department of State Treaties and Other International Acts Series (TIAS) No. 2560 or *United States Treaties and Other International Agreements* (UST), vol. 3 (pt. 3), p. 4162.

[5] For text of the military assistance agreement between the United States and Peru, signed at Lima, Feb. 22, 1952, and entered into force, Apr. 26, 1952, see TIAS No. 2466, or 6 UST (pt. 2) 2064.

[6] For documentation on these plans, see pp. 966 ff. and 1491 ff., respectively.

[7] For information on the Common Defense Scheme, aproved by the Inter-American Defense Board, Oct. 27, 1950, and by the Department of State, Jan. 15, 1951, see Secretary of Defense Marshall's letter to Secretary Acheson, Dec. 16, 1950, *Foreign Relations*, 1950, vol. I, p. 679.

2. The General Military Plan for the Defense of the American Continent which was prepared by the Inter-American Defense Board pursuant to Resolution III of the Fourth Meeting of Consultation of the Ministers of Foreign Affairs was approved by the Inter-American Defense Board on November 15, 1951, and has been submitted to the member governments for their consideration and acceptance. To date the following governments have approved the General Military Plan, which was submitted to the member nations of the Inter-American Defense Board on December 12, 1951; other approvals will undoubtedly follow when sufficient time for study has elapsed: Argentina, Honduras and Uruguay.

3. Some of the requirements of Latin American countries for equipment, training and services which are met from U.S. sources will continue to be furnished on a reimbursable basis. The high cost of available equipment and the low priority assigned to Latin America for its allocation continues to make it difficult for the U.S. at present to allow the Latin American nations to procure the many major items of new equipment which are needed, or spare parts and maintenance items necessary for equipment previously received from the U.S. While it is anticipated that the receipt of military grant aid will ameliorate this situation to a certain extent in some countries, a number of Latin American governments show an increasing interest in purchasing substantial amounts of low-cost arms from NATO surplus, and, in some cases, notably Ecuador and Bolivia, from countries behind the Iron Curtain. The Department of Defense has at present under consideration a paper[8] to consider what action if any should be taken by the U.S. with respect to exports of military equipment by NATO countries to the other American Republics.

The continued purchase, in any large scale, of equipment, either from NATO sources or Iron Curtain countries, would, of course, affect the long-range policy of arms standardization, interfere with the usefulness of the U.S. Service Missions in Latin America, and make it increasingly difficult to achieve effective collective military action in this hemisphere. While under the terms of the Battle Act,[9] the U.S. is not at present in a position to object to the purchase of arms from behind the Iron Curtain by Latin American countries, if the transaction is based purely on currency payments, it must consider carefully the eligibility of any foreign government to receive further military, economic or financial aid from the U.S., if the recipient country were, in payment for arms received, to export behind the Iron Curtain a strategic material as proscribed under this Act.

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[8] Not found in Department of State files.

[9] Reference is to the Mutual Defense Assistance Control Act of 1951 (Public Law 213), approved Oct. 26, 1951, and commonly called the Battle Act, after Representative Laurie C. Battle of Alabama; for text, see 65 Stat. 644.

H. FREEMAN MATTHEWS

397.5 IA/6-1152

Minutes of a Meeting Between Representatives of the Department of State and the Department of Defense, Held in Washington, June 11, 1952 [1]

TOP SECRET

Present: Army—Col. Crawford [2]
Navy—Capt. Lark [3]
USMC—Col. Durant [4]
} Deputies, US Delegation, Inter-American Defense Board
Air Force—Lt. Col. O'Connor
Sec U.S. Del IADB—Lt. Col. Hall [5]
Defense—Mr. Horton [6]
Department of State
ARA:AR—Mr. Jamison
Mr. Spencer
Mr. Mackay

Subject: Meeting with Deputy Representatives on US Delegation to the Inter-American Defense Board

The meeting was held by mutual agreement to discuss various matters of current concern in connection with military co-operation with Latin America, including proposed items for inclusion in the next progress report to the National Security Council on NSC 56/2.

(1) *Information Re Grant Aid Deliveries etc.*—Colonel Crawford read a telegram [7] which had been received from Major General Mullins (JBUSDC) in Rio inquiring what General Goes Monteiro could be told in response to the latter's request for information on the deliveries which would be made under the MSP to any of the other Latin American countries during 1952. General Goes Monteiro, it was presumed, desired this information in connection with securing ratification of the MSP Agreement in the Brazilian Congress. Colonel Crawford read a proposed reply [8] outlining certain general information regarding ship-

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[1] Drafted by Mr. Mackay and Mr. Jamison.
[2] Stuart F. Crawford.
[3] Jacob A. Lark.
[4] Edward W. Durant.
[5] James M. Hall.
[6] Donald Horton, Office of Military Assistance, Department of Defense.
[7] Apparent reference to a Department of Defense telegram; no copy was found in Department of State files.
[8] Not found in Department of State files.

ments of this material planned for eligible countries and publicity related thereto, but indicating that any more detailed information on amounts and types of equipment for specific units could not be divulged because agreement had been reached with the recipient countries that this information would remain confidential. Mr. Horton agreed that this was consistent with MSP policy on the non-disclosure of detailed information on grant aid to any third MSP country. Mr. Jamison suggested that it would be important in this case to try to avoid antagonizing General Goes because of his strong U.S. orientation and the important influence which he would have in securing Brazilian ratification of the MSP Agreement. It was agreed that Colonel Crawford would consult with Mr. Horton who would ascertain the extent to which General Monteiro could be furnished information within existing directives, and that the reply would be checked with Mr. Spencer.

During the discussion of General Mullins' request, the general question whether specific units being prepared with U.S. grant-aid could or should be identified publicly was raised. The Defense representatives present pointed to the fact that the only mention of the specific "designated" hemisphere defense units is made in the Secret Military Plans and they indicated that they knew of no plans to change that classification. It was pointed out that it would be extremely difficult, once the equipment started rolling, for the fact that identifiable units are receiving U.S. assistance to be kept secret. The suggestion was made that it might, therefore, be desirable to take the initiative and claim whatever propaganda advantage there might be in emphasizing the collective defense nature of the roles which such units would assume in time of emergency. It was also suggested that the IADB might be the appropriate body to receive more detailed information as to the nature and extent of the grant-aid program, but the difficulties implicit in the fact that grant-aid countries are only a few of the total number represented on the Board, and in the general nature of the Board's operations were advanced as arguments against such a course. It was agreed that this problem should be considered further both in Defense and State.

(2) *Possible Revision of NSC 56/2.*—Colonel O'Connor stated that General Walsh had for some time felt that consideration should be given to a revision of this document to take into account certain of the objectives which had already been achieved, and to include other developments which had not been brought up-to-date. For instance, the detailed policy regarding military grant program is not included in this document, nor is there reference to the method and manner of its implementation. Mr. Jamison indicated that there had also been some need felt in the State Department for such a revision. It was agreed that the possible need for revision of NSC 56/2 and changes which might be required would form the subject of a future meeting of the group.

(3) *Inclusion of Training Aircraft in Grant Aid Program.*—Mr. Horton explained, in response to inquiry, that while training aircraft as such were not contemplated in the grant program for 1953, there were spare parts and maintenance equipment to be included for countries which already had this type of aircraft. The recent requests of Colombia and Peru for this training aircraft were discussed in this connection.

(4) *Netherlands East* [*West*] *Indies, JCS Paper.*—Mr. Jamison referred to a recent meeting in the State Department in which officers of State were given an opportunity to comment on a draft JCS paper[9] dealing with certain outstanding points related to the Defense of Curacao and Aruba. The paper is to serve as the basis for reaching agreement with the Dutch on certain principles affecting forces which might be used in the Netherlands Indies in time of war or emergency and the command relationships involved; a principal concern of the Dutch being that it might be contemplated that Latin American forces would be stationed in the NEI [*NWI*]. The Defense representatives indicated that the IADB group in Defense had been given an opportunity to comment on this paper and that it had been changed considerably. It was generally agreed, however, that there was no change in the basic policy that the Dutch could be informed that no utilization of Latin American forces in the NEI [*NWI*] is contemplated. Since this policy had been reported earlier, it was agreed that it would not be necessary to carry an item on this matter in the report being prepared.

(5) *Status of Approval of IADB Military Plan and Annexes to the Plan.*—It was agreed that approval of the IADB General Military Plan by the U.S. should be included in the Report on NSC 56/2. Annex 1 of the Plan (Strategic Areas)[10] has been approved by the Council of Delegates, but has not been sent to the Governments. Annex 2 (Intelligence) and Counter Intelligence)[11] has been approved and distributed to the Governments and the JCS have indicated its acceptability to the U.S. In this connection, Mr. Jamison stated that State had not been receiving copies of these IADB documents. Colonel Hall stated that there had been changes of procedures and personnel in the IADB, and he would see to it that a complete set of copies were sent to State from the U.S. Delegation rather than directly from the IADB.

(6) *Program of Sale of Jets.*—The development of a long range program for sale of jet aircraft to Latin American countries in relation to

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[9] Presumably a reference to an early draft of a paper titled "Proposed Guidance for the Military Discussions Between the United States Commander in Chief, Caribbean, (CINCARIB) and the Netherlands Antilles Military Authorities," dated June 25, 1952; a copy is attached to a letter from Secretary of Defense Lovett to Secretary Acheson, dated July 4, 1952, not printed (756B.5/7–452).

[10] Annex 1 to the General Military Plan for the Defense of the American Continent, titled "Area of Particular Strategic Importance," dated Apr. 10, 1952, is not printed.

[11] Annex 2 to the General Military Plan for the Defense of the American Continent, dated Mar. 27, 1952, and designated IADB document C-025, is not printed.

hemisphere defense requirements was discussed in the light of Defense's disapproval of a Mexican request for jet aircraft, and reports of the interest of the French and the British, in selling jet aircraft in Latin America.

(7) *Latin American Procurement from NATO Sources.*—The draft policy position paper [12] drafted six months ago in the Department was reported to be still under discussion in Defense. It was stated that this question is being considered as a global problem in the disposal of obsolete NATO equipment to non-NATO areas rather than solely in relation to the effects on our Latin American military policy.

(8) *Relationship of Commercial Procurement to Latin American Planning.*—The difficulties presented by the probable increased ability of Latin American military representatives to purchase military equipment in the commercial market in the U.S. was discussed in relation to the problem of equipment procurement planning for these countries under the MDAP. It was agreed that this problem should be considered further in connection with possible revision of NSC 56/2.

(9) *General Jenkins' letter* [13] *on Streamlining Present Procedures in the Replacement of Mission Personnel.*—Mr. Jamison stated that State's views of the feasibility of the proposal outlined in General Jenkins' letter was still being explored in the Department. It would appear however that if generally acceptable, the new procedure should be applied to Missions of all three Services. General Jenkins' proposal was discussed in some detail, and certain variations were suggested.

(10) *Coordination of Visits of US Military Personnel to Latin America and of Latin Americans to the US.*—Certain instances of difficulties which have arisen through a lack of coordination between the Services and with State on this problem were discussed. It was agreed that a greater effort should be made to effect the necessary coordination between the interested Departments in the future, and that a summary of recent visits would be furnished by each Service.

(11) *Implementation of FY 1953 Grant-aid Program.*—Mr. Horton of General Olmsted's [14] office, asked whether any thought was being given in State to the question of whether additional governments should be approved for initiation of military grant-aid negotiations. It was pointed out that, by mutual agreement, between State and Defense, the entire situation was to be reviewed and the necessary decisions made when legislative action on the FY 1953 appropriation was completed. Three of the specific questions were (1) whether an approach should be made

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[12] Not found in Department of State files.

[13] Apparent reference to a memorandum from Maj. Gen. Reuben E. Jenkins, Assistant Chief of Staff, G-3, U.S. Army, to Assistant Secretary Miller, dated May 2, 1952, in which a modification of military mission agreements was proposed in order to permit presentation of the names of proposed members to the missions to the respective governments by the U.S. Ambassador or his designee (720.58/5-252).

[14] Maj. Gen. George H. Olmsted, Director, Office of Military Assistance, Department of Defense.

to the Dominican Republic; (2) whether any effort should be made to renew negotiations with Mexico; and (3) whether there has been any change in the Argentine situation which would warrant at least reserving the tasks and units being considered for that country. Mr. Horton indicated that it was quite possible that General Olmsted would reopen this question with State in the near future, even though it appeared that legislative action on the appropriation may not be made final until after the political conventions.

720.5 MSP/6-2352

The Secretary of State to the Secretary of Defense (*Lovett*)[1]

SECRET [WASHINGTON,] July 25, 1952.

DEAR MR. SECRETARY: On June 23 Mr. Foster requested guidance from the Department of State on initiation or renewal of negotiations with certain Latin American countries[2] which the President, on December 14, 1951, found eligible to participate in the military grant-aid program under the Mutual Security Act of 1951.

The Department of State believes that the Dominican Republic should be approached at this time to determine its willingness to conclude a Military Assistance Agreement and a bilateral Military Plan. Accordingly, I suggest that the appropriate officials of our two Departments consult in the near future to determine the best method of carrying out such an approach.

Under present circumstances, an approach to Argentina would have little if any prospect of success in obtaining its agreement to participate in the Latin American program under conditions required by existing policy and legislation. It is therefore considered inadvisable to approach the Argentine Government on this matter. There is also little possibility that the attitude taken by Mexico which caused the suspension of negotiations early this year will become more tractable now that the national elections are over.[3] However, should the Mexican Government desire to renew negotiations upon a basis which would ensure their successful conclusion, its request should be given careful consideration as a step toward closer cooperation in hemisphere defense. In view of recent political disturbances in Bolivia,[4] and uncertainties regarding the policies of the new government of that country, it is recommended that the United States not approach Bolivia as an alternate under the program.

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[1] Drafted by Mr. Jamison on July 14 and revised by Fred L. Hadsel on July 22; cleared with the Office of the Special Assistant to the Secretary for Mutual Security Affairs, the Bureau of Inter-American Affairs, the Offices of South American Affairs and Middle American Affairs.

[2] These countries were Argentina, the Dominican Republic, and Mexico, or, alternatively, Bolivia. In the referenced letter of June 23, addressed to the Secretary of State, Deputy Secretary of Defense Foster also stated in part that inasmuch as Venezuela was ready and willing to pay for equipment to meet its military requirements, "unless it appears from a political point of view that Venezuela's omission may threaten the defense and continued flow of Venezuela's materials, Venezuela should not be approached during FY 1953 as a recipient of grant aid." (720.5 MSP/6-2352)

[3] On July 6, 1952, Adolfo Ruiz Cortines was elected President of Mexico.

The Department of State believes that this government's attitude toward an approach to Venezuela should not be influenced solely by Venezuela's apparent willingness to pay for military equipment. As you know, delay has been encountered in renewing staff talks which were first begun in 1951 with Venezuelan military officials for the purpose of securing cooperation in protecting installations of great importance to hemisphere defense. This delay, and the resulting failure to achieve a satisfactory basis of military cooperation, appears to be caused primarily by the inability of Venezuela to obtain deliveries of military equipment which it desires to purchase. If it should develop that conclusion of a Military Assistance Agreement and Military Plan under the Mutual Security Act would substantially facilitate Venezuela's agreement on hemisphere defense problems, the State Department would favor initiating the necessary negotiations. I recommend therefore that steps be taken immediately to explore and determine the basis upon which Venezuela's full cooperation in hemisphere defense can be achieved.

The Department of State agrees that final planning of Title IV FY 1953 refined programs for Latin American countries which have qualified or may become eligible to receive grant-aid should proceed as rapidly as possible. It also believes that it would be desirable to retain until the end of the calendar year sufficient flexibility in the program to permit an agreement to be negotiated with Venezuela, and perhaps, with Mexico.

Sincerely yours,

DEAN ACHESON

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[4] Reference is to events in connection with the military coup carried out by the National Revolutionary Movement (MNR), Apr. 9-11, 1952; as a result of the coup Victor Paz Estenssoro was proclaimed President of Bolivia on Apr. 16. For documentation on this subject, see pp. 490 ff.

720.5 MSP/7-2252 : Circular airgram

The Secretary of State to Certain Diplomatic Offices in the American Republics[1]

SECRET WASHINGTON, July 22, 1952.

The Department of Defense has recommended that a share of the funds appropriated for the FY 1952 grant-aid military assistance program for Latin America be used to assist Brazil, Chile, Colombia and Peru in strengthening existing naval training centers or in establishing new centers. Under the plan outlined by the Department of Defense, each of these centers would provide instruction in the use of U.S. naval equipment. Instructors would be supplied by local naval authorities, who would be expected to appoint personnel which had received training in U.S. Navy schools in the United States.

The U.S. contribution to such training centers would consist primarily of initial equipment, such as training aids, and of guidance which U.S. naval training missions and mobile training teams from the United States would provide local naval authorities in establishing the centers. After the training centers had been established, it would be expected that they would continue in operation on a permanent and locally-sustained basis. The type of training provided by each center would be more or less specialized, depending on the training requirements of the particular country and its capability for making available specialized instructors. For example, the Department of Defense has recommended the following types of training for each of the designated countries: Brazil, engineering, basic electronics; Chile, gunnery and fire control, basic electronics, information training; Colombia, engineering, gunnery, damage control; Peru, anti-submarine warfare, submarine attack, basic electronics.

The Department is informed that, in addition to utilization of such centers for the training of naval personnel of the host countries, the Department of the Navy contemplates that they might also be used, with the consent of the governments concerned, to train naval personnel of other Latin American countries. It is their view that such utilization would encourage Latin American countries to assume a greater share of responsibility for training for hemisphere defense, would promote cooperation among Latin American naval establishments, and would help to overcome the language barrier confronting most Latin American students receiving such training in the United States. The Department has been assured, however, that the provisions of U.S. assistance to the training centers mentioned above would not be contingent upon the prior agreement of the government in which the center exists or is established to provide such training to naval personnel of other countries. While the basis of U.S. assistance in the improvement or establishment of training centers will be arranged through the MAAG, any arrangements for training of foreign students in these centers would be matters for the Governments concerned to work out, and U.S. action would be confined to suggestion and advice. On the basis of informal discussions between U.S. Naval officers and representatives of the Navies of the respective countries, however, the Naval Department believes that suggestions which might be made to this effect would be favorably received.

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[1] Sent to Rio de Janeiro, Santiago, Bogotá, and Lima; repeated for information to Habana, Quito, and Montevideo.

Drafted by Mr. Jamison and George O. Spencer of the Office of Regional American Affairs; cleared with the Office of the Special Assistant to the Secretary for Mutual Security Affairs, the Offices of South American Affairs and Middle American Affairs, the Department of Defense, and the Department of the Navy.

The Department of Defense is providing the MAAG in each country with more detailed information regarding the naval training program. It is suggested that the Embassy discuss the project with the appropriate MAAG personnel and provide the Department with comments, particularly with reference to that portion of the plan which contemplates the utilization of centers for the training of naval personnel of countries other than that in which the center is located.

ACHESON

S/P–NSC files, lot 61 D 167, NSC 56 series

Memorandum by the Acting Secretary of State to the Executive Secretary of the National Security Council (Lay) [1]

TOP SECRET [WASHINGTON,] October 14, 1952.

Subject: Seventh Progress Report on NSC 56/2, "United States Policy Toward Inter-American Military Collaboration."

NSC 56/2 was approved as governmental policy on May 19, 1950. It is requested that this Progress Report as of September 25, 1952, be circulated to the members of the Council for their information.

1. *Grant Aid Military Assistance Program.* The Congress appropriated $51,695,750, or the total amount authorized by the Mutual Security Act of 1952,[2] to carry out the grant aid military assistance program for Latin American countries during Fiscal Year 1953. In addition, the Congress has authorized that the unexpended balance of the Fiscal Year 1952 appropriation, which totaled $38,150,000, may be expended during Fiscal Year 1953. The total amount appropriated, $89,835,750, is

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[1] Cover sheet is not printed. Drafted by Mr. Mackay and Mr. Spencer on Sept. 29; cleared with the Office of the Deputy Under Secretary of State, the Office of the Counselor, the Bureau of Inter-American Affairs, the Offices of South American Affairs and Middle American Affairs, and the Department of Defense.

[2] Public Law 400, approved June 20, 1952; for text, see 66 Stat. 141

$10,165,250 less than the amount originally estimated to be required for the two-year program.

Military Assistance Agreements are now fully in effect with Chile,[3] Colombia,[4] Cuba,[5] Ecuador and Peru. Ratification of the Brazilian and Uruguayan Agreements is still pending in the legislatures of both countries.[6] The Brazilian Foreign Minister has informed our Embassy that ratification by the Bazilian Senate probably may take place by the end of October. Some opposition to ratification of the Agreement with Uruguay has been encountered by the Uruguayan Parliament, and the Uruguayan Foreign Minister[7] has requested a clarification of certain Uruguayan obligations under the Agreement.

The Departments of State and Defense agreed that the Dominican Republic should be approached with regard to the initiation of negotiations looking toward the conclusion of a Military Assistance Agreement with that country. By agreement with the Dominican Government, negotiations were begun on September 22.

It is intended that sufficient flexibility should be retained in the program, at least until the end of the present calendar year, to permit a Military Assistance Agreement to be negotiated with Venezuela, and perhaps with Mexico and Argentina, if it should become possible or desirable to include those countries in the grant aid program. At the request of Venezuela, defense talks between U.S. and Venezuelan military representatives have been suspended, without agreement on the types and quantities of U.S. military equipment required by Venezuela to protect the oil fields and meet other Venezuelan defense requirements. Although the talks are expected to be resumed, it would be unrealistic to discount entirely the possibility that Venezuela may not agree to buy, for cash, the equipment required for the protection of the oil fields, and take other security measures necessary for their protection. In view of the important security interest of the United States in the oil fields, it may be desirable to consider the advisability of negotiating a Bilateral Military Assistance Agreement with Venezuela, with a view to providing a part of the equipment required for the protection of the oil fields. While the mutual security negotiations with Mexico were broken off during the heat of the Mexican election campaign, it does not appear likely that the new Mexican administration intends to seek a renewal of these negotiations; however, should such a request be received from the Mexican Government, it would be given careful consideration.

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[3] For text of the military assistance agreement between the United States and Chile, signed at Santiago, Apr. 9, 1952, and entered into force, July 11, 1952, see TIAS No. 2703, or 3 UST (pt. 4) 5123.

[4] For text of the exchange of notes constituting a military assistance agreement between the United States and Colombia, signed at Bogotá, Apr. 17, 1952, and entered into force on the same date, see TIAS No. 2496, or 3 UST (pt. 3) 3690.

[5] For text of the military assistance agreement between the United States and Cuba, signed at Habana, Mar. 7, 1952, and entered into force on the same date, see TIAS No. 2467, or 3 UST (pt. 3) 2901.

[6] For documentation on the ratification of the military assistance agreements between the United States and Brazil and the United States and Uruguay, see pp. 570 ff. and 1535 ff., respectively.

[7] Alberto Domínguez Cámpora.

Plans for expanding Brazil's Army mission in hemisphere defense and for providing Brazil with equipment required to perform the expanded mission are now under consideration. If finally approved, these plans would require a revision of the Military Plan between the United States and Brazil, but the negotiations would not be initiated until Brazil has ratified the Bilateral Military Assistance Agreement.

Initial shipments of military equipment under the grant aid program have been made to Cuba, Ecuador, Colombia and Peru. Preparation of a consolidated shipment of Army, Navy and Air Force equipment to Chile has been suspended, pending clarification of the attitude of the newly elected President [8] of that country toward continuance of the Agreement.

Interim Military Assistance Advisory Groups have now been established in those countries where Agreements are fully in effect. In each case, the Chief of one of the U.S. military missions already in the country has been designated acting Chief of the MAAG, for an interim period. Military missions are now performing MAAG functions, except in the case of Chile, where it will be necessary to assign a small complement of Army personnel because there is no Army mission in that country. Consideration is being given to the continued use of existing military missions to assist in carrying out the MAAG functions. This is believed desirable in Latin America in view of the small size of the countries and programs, the background of cooperation existing between missions and the armed forces of the other Governments, the familitarity of the missions with the military problems of the other Governments and the economies which would accrue to the United States and the Latin American countries by such use of mission personnel.

2. *Proposed Establishment of Permanent Joint Board on Defense with Brazil.*

Successful joint military talks with Brazilian Defense officials in Rio de Janeiro during September [9] led to recommendations to the respective Chiefs of Staff of the two Governments for a reorganization of our cooperative activities with Brazil in the military field along the lines established for U.S.-Canadian military cooperation, through the establishment of a top-level joint board to be known as the Permanent Joint

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[8] Gen. Carlos Ibañez del Campo was elected President of Chile on Sept. 4, 1952.

[9] Reference is to the joint meetings between the Joint Brazil-United States Defense Commission and the Joint Brazil-United States Military Commission, Sept. 8–13, 1952. A brief report describing the meetings is contained in despatch 437, from Rio de Janeiro, dated Sept. 17, 1952, not printed (732.58/9–1752); enclosed with the despatch is a copy of the recommendations agreed to at the meetings.

Board on Defense, Brazil-United States. The Board, which would meet alternately in Washington and Rio de Janeiro, would, if organized along the lines contemplated, effect increased coordination and give direction to the activities of the present Joint U.S.-Brazil Military Commission in Rio de Janeiro and the Joint U.S.-Brazil Defense Commission in Washington.

3. *SHORAN Base Negotiations in Haiti.*

Arrangements are being finalized by our Embassy in Haiti for an exchange of notes [10] with the Haitian Government on the temporary establishment in Haiti by the U.S. Air Force of a SHORAN control station for ninety days during the conduct of experiments in connection with the tracking of guided missiles.

4. *Status of Approval of Inter-American Defense Board "General Military Plan for the Defense of the American Continent", (IADB C–019), and the "Common Defense Scheme for the American Continent", (IADB C–04).*

Eight nations, Argentina, Brazil, Cuba, Dominican Republic, Ecuador, Honduras, United States and Uruguay, have approved the "General Military Plan for the Defense of the American Continent", (IADB C-019).

Eleven nations, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Paraguay, Peru, Venezuela and the United States have approved the "Common Defense Scheme for the American Continent", (IADB C–04).

DAVID BRUCE

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[10] Reference is to the exchange of notes, signed at Port-au-Prince, Aug. 22 and 29, 1952, and entered into force on the latter date; the notes were transmitted to the Department of State under cover of despatch 165, from Port-au-Prince, dated Sept. 10, 1952, not printed (938.542/9–1052).

720.5/11-2552

Minutes of the Second Meeting of the Department of State–Department of Defense Latin American Coordinating Committee, Held in the Department of State, 3 p.m., November 25, 1952 [1]

TOP SECRET

Those participating in the meeting were:

Department of State

Mr. E. A. Jamison—AR

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[1] These minutes are unsigned. Minutes of a previous meeting of the group specifically identified as the Latin American Coordinating Committee were not found in Department of State or Department of Defense files; however, it is possible that the minutes of the meeting held on June 11, 1952, printed on p. 125, are the minutes of the first meeting of the committee.

Mr. G. O. Spencer—AR
Mr. R. M. Sayre—AR

Department of Defense

Colonel Francis Hill, USA
Colonel S. F. Crawford, USA
Colonel Edward Durant, USMC
Colonel W. F. Lewis, USAF[2]
Lt. Colonel J. M. Hall, USA
Major G. W. Williamson, USAF[3]

[Here follow a distribution list, discussion of corrections to be made in the minutes of the previous meeting (Agenda item 1), and discussion of unfinished business, including the implementation of the provisions of NSC 56/2 (Agenda item 2-*a*).]

b. Procurement of Arms by Latin American Nations from Sources Other Than the United States.

Mr. Sayre said that as far as it had been possible to determine, the United States had not been consulted on or had prior knowledge of the reported sale by Britain of 70 jets to Brazil in exchange for cotton.

Mr. Jamison referred to the policy paper now pending on requesting NATO countries to consult with the United States before selling military equipment in Latin America and stated that the Bureau of Inter-American Affairs would not be likely to agree to a policy which would preclude Latin American countries from acquiring military equipment from non-U.S. sources until the United States was in a better position to supply Latin American requirements for military equipment.

Colonel Hill commented that while it might not be possible or advisable to attempt to discourage sales of military equipment to Latin American countries by NATO countries, he thought it might be possible to prevent NATO countries from sending missions to Latin America because the latter was usually a source of friction. He also suggested, as a possibility, that some system of consultation might be devised so that in those cases in which the United States could not supply the requirements, the Latin American Governments might be directed to a NATO country that supplied the same or similar equipment as that obtainable in the United States.

[Here follows discussion of the registration of MDAP agreements (Agenda item 2-*c*) and the IADB budget (Agenda item 3).]

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[2] Willis F. Lewis.

[3] George W. Williamson.

720.5 MSP/12-2352

The Under Secretary of State (Bruce) to the Secretary of Defense (Lovett) [1]

SECRET [WASHINGTON,] December 23, 1952.

MY DEAR MR. SECRETARY: I believe you should be advised of this Department's concern regarding certain proposals of the Defense Department respecting implementation of the grant-aid military assistance program now being conducted under the Mutual Security Act of 1951, as amended, for certain Latin American countries. As you are aware, each Latin American Government with whom we have concluded a Bilateral Military Assistance Agreement has agreed to make available for United States administrative expenses such amounts of local currency as may be agreed during subsequent negotiations between the United States and the other Government. The Department of State is prepared to commence these negotiations at the earliest practicable date. However, it is essential, if we are to promote Latin American good-will, rather than ill-will, toward the program, that United States administrative costs to be met out of local currency be reduced to the minimum.

Strict economy of costs to be borne by the Governments participating in the Latin American program is essential for a number of reasons. First, the relatively poor economic condition of some countries, such as Ecuador, may make it difficult for them to bear even the cost of minimum United States administrative requirements. Secondly, some Governments may need to obtain appropriations of funds to meet United States requirements from their legislatures, in which case, United States requirements for implementing the program will be exposed to full public scrutiny and become the subject of heated parliamentary and public debate. Thirdly, communist and nationalist elements in Latin America already have made political capital by attacking the Bilateral Military Assistance Agreements, and these elements may be expected to make an issue of large local currency payments in an effort to promote further ill-feeling toward the United States. Finally, if we are to make progress toward the goal of assuring maximum military, economic and political cooperation from Latin American countries during global war, it is essential that all of our Latin American programs and relationships be carried out in a manner best calculated to promote maximum good-will toward the United States.

The Department of State is particularly concerned regarding the size of Military Assistance Advisory Groups proposed by the Department of Defense and regarding the high cost to the other Governments of mobile training teams planned for the program. Sizeable United States military training missions, which are maintained at the expense of the other Governments, have been operating in most Latin American countries for a number of years. They would appear to be ideally suited to discharge most, if not all, of the responsibilities of the Defense Department under the program, particularly the training of Latin American armed forces in the use of programmed equipment. It would seem possible, by effectively using existing mission personnel, to reduce the number of MAAG personnel and the number of mobile training teams proposed by the Defense Department, and thus to effect a considerable economy on behalf of the other Governments without jeopardizing U.S. interests in the program. Accordingly, this Department suggests consideration of the formula set forth in the following numbered paragraphs as a practicable line of approach to the other Governments during forthcoming negotiations for local currency.

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[1] Drafted by Mr. Spencer on Dec. 15, 1952; cleared with the Office of the Special Assistant to the Secretary for Mutual Security Affairs, and the Bureau of Inter-American Affairs.

1. The other Government would be requested to receive a Chief of MAAG and one clerical or administrative assistant and to provide local currency required for the maintenance of these personnel during the current fiscal year.
2. The other Government would be informed that United States military training missions will provide training in the use of programmed equipment, whenever possible. When necessary and practicable, non-specialists now assigned to the training missions would be replaced by specialists competent to train in the use of programmed equipment. The other Government would be informed that it might be necessary to increase mission complements slightly, but that the assignment of additional personnel would be kept to a minimum.
3. The other Government would be informed that additional mission personnel would be assigned only with the consent of the other Government. Local currency required for the maintenance of additional personnel would be obtained in the customary manner by means of an exchange of notes with the other Government prior to the assignment of individual personnel.
4. The other Government would be informed that failure to permit the assignment of required personnel, or failure to provide local currency for the maintenance of such personnel, would raise the question of whether the other Government was fulfilling its commitment under the Bilateral Military Assistance Agreement.
5. In countries where a Service Department is contributing to the program, but where that Service Department maintains no training mission, personnel required by that Service Department would be assigned to the Office of the Chief of MAAG.

This formula would: (*a*) permit effective use of existing training mission personnel; (*b*) in most countries, obviate the need for sizeable MAAGs and expensive mobile training teams; (*c*) minimize the amount of local currency initially requested from the other Governments and permit them to provide any additional currency required by the U.S., at the time the need arose for additional U.S. personnel in the other countries; (*d*) reduce the amount of local currency required by the State Department for administrative support to MAAGs.

If the foregoing formula is acceptable to the Defense Department, the Department of State would appreciate receiving precise local currency requirements of the Defense Department, determined in accordance with this line of approach, so that negotiations with the other Governments for local currency may be commenced at the earliest possible date.

Sincerely yours,

DAVID BRUCE

720.5 MSP/1-1653

The Deputy Secretary of Defense (Foster) to the Secretary of State

SECRET

WASHINGTON, January 16, 1953.

DEAR MR. SECRETARY: The Department of Defense has reviewed with great interest your letter [1] expressing concern regarding the Department of Defense proposed Military Assistance Advisory Group complements and local currency requirements to implement the grant-aid military assistance program for certain Latin American countries. The Department of Defense, in determining the number of personnel and local currency requirements for the Latin American program, considered in detail all the views expressed by the Department of State.

In a positive effort to satisfy the Department of State request for reconsideration of this problem, the Department of Defense, working in close coordination with the Departments of the Army, Navy and Air Force, has made a complete study to determine the minimum number of personnel for the Military Assistance Advisory Groups in Latin America and to fix a minimum local currency requirement. The figures are contained in an enclosure [2] to this letter. You will note that there has been no reduction in the Military Assistance Advisory Group personnel from the original request submitted to the Department of State on 15 September 1952. The review has shown that these personnel are the bare minimum to implement the program effectively. There has been, however, an appreciable reduction in local currency requirements, especially in currency for the mobile training teams. This has been accomplished either by making a planned deviation in the end-item program or lowering of the training standards to a point barely acceptable.

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[1] *Supra.*

[2] Enclosure 1, a list titled "Proposed Basic MAAG Complements for Latin American Countries," indicated, *inter alia*, the number of army, navy, and air force personnel proposed for assignment to the respective Latin American countries included in the grant military assistance program. The total complement recommended for each country was as follows: Chile (10), Colombia (10), Cuba (7), Dominican Republic (9), Ecuador (8), Peru (8), and Uruguay (12). The list further indicated that for Brazil the personnel of the Joint Brazil-United States Military Commission would implement the necessary MAAG.

In general, it is not feasible to replace the supposedly non-specialists now in the Military Missions with specialists to train the host government in the use of programmed equipment. All personnel in the Military Missions are now considered specialists and any change as recommended would deprive the host country of one activity for another, with no material gain. In a few cases, the Services hope to replace personnel in the Military Missions with personnel more suitable under the present concept. This procedure is a very slow process since it must be borne in mind that abrupt changes in military personnel in the Military Missions would result in a large expenditure of United States dollars. When a member of a Military Mission does not complete his contractual term of approximately two (2) years, the entire cost of making any change is borne by the United States Government.

Augmentation of the Military Missions places the individual either in an accredited or non-accredited status. If augmentation is based on an accredited status, it would cost the other country considerably more than it would if the individual were assigned as a member of the Military Assistance Advisory Group. If augmentation is based on a non-accredited status, the United States Government would pay all expenses and the Departments of the Army, Navy and Air Force cannot undertake this additional financial burden nor can administrative funds appropriated under the Mutual Security legislation be made available.

The Department of Defense, as the operating agency, is indeed sympathetic with the views expressed by the Department of State and in no way desires to jeopardize United States interests in the program nor create ill-feeling with the Latin American governments. However, the Department of Defense, which is charged by the Congress with implementation of the Military Assistance Program, must have the means and personnel required to ensure proper performance of necessary functions. If, in the opinion of the Department of State, these provisions for personnel would jeopardize United States interests in any of the recipient Latin American countries, the Department of Defense currently sees no solution except to review the situation to determine whether it might not be in the best interests of the United States to eliminate the program in such countries.

The urgency of a decision in this matter is of paramount interest to the Department of Defense. The Department of Defense, at the request of the Department of the Army, has already suspended a shipment of matériel to Chile due to the lack of qualified personnel in that country to receive the shipment. Since other shipments to the Latin American countries are planned in the near future, it is imperative that a positive course of action be selected in order that the Department of Defense can plan accordingly.

Sincerely yours,

WILLIAM C. FOSTER

[Enclosure 2]

List of Local Currency Requirements To Finance Military Assistance Advisory Groups in Latin America Prepared in the Department of Defense

RESTRICTED

1 January to End FY 53 or 1st to 6th Month Inclusive

Country	MAAG	Training			Total
		Army	Navy	Air Force	
Brazil*	$17,024	$7,640(1)	$33,296(2)	$4,770(5)	$62,730
Chile	9,925	7,587(1)	41,936(2)	—	59,448
Colombia	20,000	7,385(1)	14,024(3)	—	41,409
Cuba	12,677	No Program	—	5,600(6)	18,277
Ecuador	8,517	7,385	—	—	15,902
Peru	5,896	7,385(1)	20,968(3)	8,028(6)	42,277
Uruguay*	15,275	7,390(1)	7,192(4)	—	29,857
Dominican Republic †	16,144	No Program	17,000(3)	11,628(7)	44,772
Total	$105,458	$44,772	$134,416	$30,026	$314,672

*Pending ratification of the Military Assistance Bilateral. [Footnote in the source text.]

†Pending completion of Negotiations. [Footnote in the source text.]

(1) One composite technical training team of 5 men for 90 days.

(2) Four basic technical teams (i.e., gunnery, electronics, engineer) of 4 men for 6 months.

(3) Four basic technical teams as in (2) of 2 men each for 6 months.

(4) Four basic technical teams as in (2) of 1 man each for 6 months.

(5) One maintenance and communication combined technical team of 3 men for 6 months.

(6) One composite maintenance team of 1 officer and 3 airmen for 6 months.

(7) Two composite maintenance and supply teams of 2 men each for 6 months.

[Enclosure 3]

List of Local Currency Requirements To Finance Military Assistance Advisory Groups in Latin America Prepared in the Department of Defense

RESTRICTED

7th to 18th Month Inclusive

Country	MAAG	Training			Total
		Army	Navy	Air Force	
Brazil‡	$34,048	$7,640(1)	$8,324(2)	—	$50,012
Chile	19,850	7,587(1)	10,484(2)	$5,188(3)	43,109
Colombia	40,000	7,385(1)	7,012(2)	—	54,397

7th to 18th Month Inclusive—Continued

Country	MAAG	Training			Total
		Army	Navy	Air Force	
Cuba	12,677	No Program	—	—	12,677
Ecuador	17,034	7,385(1)	—	—	24,419
Peru	7,318	7,385(1)	10,484(2)	—	25,187
Uruguay ‡	22,484	7,390(1)	7,192(2)	12,564(4)	49,630
Dominican Republic §	26,827	No Program	8,500(2)	—	35,387
Total	$180,238	$44,772	$51,996	$17,752	$294,758

‡ Pending ratification of the Military Assistance Bilateral. [Footnote in the source text.]
§ Pending completion of Negotiations. [Footnote in the source text.]

(1) One composite technical training team of 5 men for 90 days.

(2) Basic technical teams (i.e., gunnery, electronics, engineer) of a total of 4 men for 6 months.

(3) A composite maintenance and engine overhaul technical team of 4 men for 6 months.

(4) A composite maintenance and engine overhaul technical team of 4 men for 6 months and a technical supply team of 4 men.

711.56322/4–253

The Under Secretary of State (Smith) to the Secretary of Defense (Wilson)[1]

SECRET [WASHINGTON,] April 2, 1953.

MY DEAR MR. SECRETARY: In Secretary Lovett's letter of May 9, 1952[2] concerning the possible reestablishment of military bases in the Galapagos Islands, it was indicated that the Department of Defense considered that an adequate basis for obtaining military rights in Ecuador, when needed, is to be found in the provisions of the Inter-American Treaty of Reciprocal Assistance[3] and the Ecuador-United States Military Plan of February 20, 1952.[4] Secretary Lovett's communication concluded that an additional agreement is neither necessary nor desirable at this time.

In the course of consideration of this matter in the Department of State and consultation with our Embassy in Quito, considerable doubt has been expressed that the provisions of either of these agreements are sufficiently precise to warrant an assumption that military rights so comprehensive as those defined in the annex[5] to Secretary Lovett's letter of May 9 could, in fact, be obtained without difficulty from Ecuador in the event of global war or other extreme emergency. Neither the Rio Treaty nor the Bilateral Military Plan contains a specific commitment on Ecuador's part to make available base rights of the nature of those contemplated. In the absence of an understanding with the Ecuadoran Government more specific than any embodied in agreements now in force, there would appear to be considerable risk that delay or other difficulties would be encountered in effecting necessary arrangements after an emergency calling for urgent use of such rights by this Government had arisen. It would appear, therefore, that if we wish to ensure that Ecuadoran military cooperation with the United States would include that Government's making available military rights in the Galapagos Islands for purposes of hemispheric security, further conversations with the Ecuadoran Government will be necessary with a view to reaching an agreement or firm understanding on this subject.

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[1] Drafted by Mr. Spencer and Mr. Bernbaum on Mar. 10; cleared with the Office of the Deputy Under Secretary of State, the Office of the Special Assistant to the Secretary for Mutual Security Affairs, the Bureau of Inter-American Affairs, and the Office of Regional American Affairs.

[2] Not printed. (711.56322/5–952)

[3] For text of the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948, see 62 Stat. (pt. 2) 1681, or TIAS No. 1838.

[4] For documentation on the military plan, see pp. 966 ff.

[5] The text of the referenced annex, titled "Military Rights Requirements in the Galapagos Islands," reads as follows:

In this connection the Department of the Navy has informed this Department of its concern caused by the salvaging of defense installations on Baltra Island of the Galapagos group; and has suggested that representations be made to the Ecuadoran Government designed to forestall further removal of such facilities. It seems to me that before making formal representations to Ecuador on this subject we should have clearly in mind the main outlines of such general agreement, if any, as it may be desirable to work out with Ecuador pertaining to the Galapagos Islands. The preservation of existing facilities could be part of such general agreement. In the absence of such an agreement, or of a clear understanding with the Ecuadoran Government of the need for maintaining these installations for use in the event of an emergency, an approach to that Government solely on the question of the removal of equipment from the installations would seem to lack adequate justification. The Ecuadoran Congress has in fact, already enacted legislation authorizing the grant of a considerable quantity of salvaged pipe to two communities suffering from chronic water shortages.

If the Department of Defense believes that an approach should be made to the Government of Ecuador on this broader question, i.e., the possible use of the Galapagos Islands in the event of an emergency, then perhaps our proposals might be submitted to the Government of

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"*U.S. Army*

"1. None.

"*U.S. Navy*

"1. The right to establish a Naval air facility for the support of fleet reconnaissance and anti-submarine air detachments, including associated communication components.

"2. The right to establish a high frequency radio direction finder station.

"*U.S. Air Force*

"1. The right to survey, establish, occupy, operate, improve, expand, develop, protect, maintain, stockpile and support air bases. Air facilities are required at, but not limited to, Seymour Island.

"*Note:* The above rights are desired after the declaration of an emergency."

Ecuador in the form of an amendment to the secret Bilateral Military Plan between Ecuador and the United States. Such amendment might provide for the maintenance of existing installations, guaranteed by Ecuador, as well as arrangements for the use of the Galapagos Islands for hemispheric defense during an emergency. If the general question of the Galapagos Islands is to be taken up further with the Government of Ecuador, there would seem to be obvious advantages in associating that subject with the Bilateral Military Assistance Agreement and the secret Military Plan pursuant thereto.

I should appreciate being informed of the views of the Department of Defense in regard to the foregoing, and suggest that as a preliminary step the entire subject be discussed by representatives of our two Departments. If you concur in this suggestion, Mr. Maurice M. Bernbaum is prepared to discuss the matter further with such representatives of the Department of Defense as may be designated.[6]

Sincerely yours, WALTER B. SMITH

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[6] No record of a Department of Defense reply to this letter was found in Department of State files.

716.5 MSP/4-953

The Secretary of State to the Secretary of Defense (*Wilson*)[1]

TOP SECRET [WASHINGTON,] April 9, 1953.

MY DEAR MR. SECRETARY: I refer to a letter of November 9, 1951[2] from the Acting Secretary of State to the Secretary of Defense, which concurred in a proposal of the Department of Defense that the President be asked to approve the initiation, under the Mutual Security Act of 1951, of grant-aid military assistance programs for Latin American countries specified by the Department of Defense. The President subsequently approved the initiation of programs for the following Latin American countries by finding that United States defense plans established a need for their participation in military missions important to the defense of the Western Hemisphere: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, the Dominican Republic, Ecuador, Mexico, Peru and Uruguay. Bilateral Military Assistance Agreements have been negotiated with all of the countries named, except Argentina, Bolivia and Mexico. Programs are not, at present, contemplated for the latter three countries.

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[1] Drafted by Mr. Spencer and Mr. Jamison on Apr. 2; cleared with the Bureau of Inter-American Affairs, the Office of Middle American Affairs, and the Office of the Special Assistant to the Secretary for Mutual Security Affairs.

[2] Printed in *Foreign Relations*, 1951, vol. II, p. 1027.

The Department of State is making every practicable effort at the diplomatic level to diminish the strength of communist elements in Central America, particularly in Guatemala, and to increase the willingness and ability of Central American States to resist communist subversion and pressure from whatever source. In these circumstances, the Department of State believes that an offer by the United States of military grant-aid to El Salvador, Honduras and Nicaragua would be regarded by those countries as tangible evidence of this Government's intentions, under the Inter-American Treaty of Reciprocal Assistance, to help them repel any unprovoked invasion of their territory. The Department of State believes that the implicit emphasis of Guatemala's ineligibility to receive grant assistance, in the face of tangible United States assistance to neighboring states, would help establish a political climate in Guatemala of benefit to anti-communist Guatemalan elements, including elements in the Guatemalan armed forces disposed to combat communist domination of the present Guatemalan Government.

For the reasons stated, it is clear that the attainment of political and psychological objectives of this Government in relation to communist activities in Central America would be furthered by making available relatively small amounts of military grant assistance to El Salvador, Honduras and Nicaragua, in the event that those Governments should agree to conclude the required Bilateral Agreements with the United States. As a first step in establishing the eligibility of the three countries for United States grant assistance, I therefore recommend that the Department of Defense determine the specific hemisphere defense missions which each of these countries could effectively perform with limited United States grant assistance, taking into account the present military and economic capabilities of each country. It is possible, of course, that the Department of Defense may find that the capabilities of El Salvador, Honduras and Nicaragua would be insufficient, even after the provision of United States grant assistance, to enable them to contribute military units comparable in type and strength to those units which are being prepared for hemisphere defense by other Latin American countries. However, even if the Department of Defense should find it possible to develop only relatively minor roles in hemisphere defense for each of the three countries, I believe that the provision by the United States of grant assistance for the performance of such roles would be justified, in view of the important considerations referred to above.

The Department of State believes that the cost of any programs which may be finally approved for El Salvador, Honduras, and Nicaragua should be met out of existing appropriations, if possible. However, in the event additional appropriations should be required, the Department of State is prepared to support the Department of Defense in a request to the Congress for necessary funds.

In view of the importance of our being in a position to provide grant-aid military assistance to El Salvador, Honduras and Nicaragua at the earliest possible date, I recommend that this matter be accorded a high and urgent priority by the Department of Defense and that the Department of State be informed as soon as possible whether the Department of Defense concurs in the proposals made herein.[3]

Sincerely yours, JOHN FOSTER DULLES

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[3] Representatives of the Department of State and the Joint Chiefs of Staff discussed the subject of military aid to the Central American countries at a meeting on May 22, 1953; for a memorandum containing the substance of their discussion, see p. 150.

Eisenhower Library, papers as President, Whitman file, NSC records

Memorandum of Discussion at the 141st Meeting of the National Security Council on Tuesday, April 28, 1954 [1]

TOP SECRET EYES ONLY

Present at the 141st meeting of the National Security Council were the President of the United States, Presiding; the Vice Pesident of the United States; the Secretary of State; the Acting Secretary of Defense; and the Director for Mutual Security. Also present were the Secretary of the Treasury; the Director of Defense Mobilization; General Vandenberg for the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; Mr. Robert Cutler, Special Assistant to the President; Mr. C. D. Jackson, Special Assistant to the President; Major General Wilton B. Persons, USA (Ret.), Special Assistant to the President; Colonel Paul T. Carroll, Military Liaison Officer; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a general account of the main positions taken and the chief points made at this meeting.

[Here follows discussion of matters relating to NATO, the situation in Indochina, and United States policy with respect to Formosa and the Nationalist Government of China.]

4. *Sale of modern aircraft to Latin American nations*

Secretary Kyes said that he wanted General Vandenberg to inform the Council of another matter which was of concern to the Defense Department.

General Vandenberg stated that the British were currently sending greatly increased quantities of modern aircraft to several Latin American countries, whereas the United States, in accordance with its policy and its desire that these nations not use military matériel to engage in hostilities with one another, was sending very little. If the present situation continued we must anticipate that the British will take over our military missions in the Latin American republics. If, on the other hand, it is a U.S. objective to maintain our missions in this area, we would be obliged to sell a larger number of modern aircraft to these governments.

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[1] This memorandum was drawn up by S. Everett Gleason, the Deputy Executive Secretary of the NSC, on Apr. 29.

The President answered that he had never wholly sympathized with the State Department view that munitions sent to Latin America would be used by the republics for hostilities against each other. He inquired as to whether the State Department still maintained this position, and directed General Vandenberg to take up his problem directly with the State Department.

Mr. Cutler suggested that the Secretary of State report back to the Council on this subject at its next regular meeting.

The National Security Council:

a. Noted an oral report by General Vandenberg for the Chairman, JCS, of increased British sales of modern aircraft to Latin American nations, and the adverse effect upon the position of U.S. military advisory and assistance groups.

b. Noted that the President directed the Departments of State and Defense to study this problem and be prepared to make recommendations thereon at the Council meeting on May 6.

Note: The action [2] in *b* above subsequently transmitted to the Secretaries of State and Defense for implementation.

[Here follows discussion of United States national security policies and President Eisenhower's address to the American Society of Newspaper Editors on April 16, 1953.]

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[2] NSC Action No. 775.

756B.5/4-2953

Briefing Paper Prepared in the Department of State [1]

TOP SECRET [WASHINGTON, April 29, 1953.[2]]

Problem:

To draw up set of principles to guide US-Dutch military talks on joint defense of Caribbean.

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[1] Prepared for the Deputy Assistant Secretary of State for European Affairs James C. H. Bonbright. Drafted by Keld Christensen of the Office of Western European Affairs; cleared with the Bureau of Inter-American Affairs, the Office of Regional American Affairs, and the Department of Defense.

[2] The source text bears no indication of a drafting date; the date supplied is that of the covering memorandum, not printed.

Background:

In 1948 the U.S. indicated its desire to have the U.S. Commander in Chief Caribbean begin talks with his Netherlands opposite number with a view to concluding joint defense arrangements. Such talks commenced, but were broken off late in 1951 as it was apparent that the Dutch then wanted the initial talks at the Government level. Since then, there have been numerous exchanges of notes with the aim of drawing up a set of agreed principles to guide the two field commanders in working out the details.

The two governments have reached agreement that the only non-Netherlands forces to be stationed in the Netherlands West Indies will be U.S. forces and only with the consent of the Netherlands.

The latest note from the Dutch (October 3) [3] indicates that they wish to be responsible for not only local defense but also for the defense of a subarea of the Caribbean. This proposed subarea would include the sea approaches to the Netherlands Antilles and be contiguous to Venezuela and Colombia. The Dutch also proposed that U.S. forces stationed on the islands be under the command of an Antilles subarea commander of Dutch nationality.

The U.S. Joint Chiefs of Staff have rejected these proposals and have prepared a new set of proposals.[4] These proposals envisaged a U.S. commander as being responsible for the protection of sea communications, and a Netherlands commander as being responsible for local defense. A new proposal on our part is that in time of war U.S. forces stationed on the Islands for local defense, at Dutch invitiation, will initially come under the command of a Dutch officer responsible to the U.S. Commander in Chief Caribbean. If U.S. forces be needed in such numbers as to change the relative strength of the two national forces the nationality of the local commander will be subject to review.

Recommendations:

When handing the Ambassador [5] the Department's note,[6] it is suggested that you say that the U.S. Joint Chiefs of Staff have carefully studied the Embassy's note of October 3, 1952, and while they find that they are unable to accept the subarea idea they have tried to meet the suggestions of the Netherlands Government with certain modifications which we hope will be acceptable. You may say that we believe proposed subarea would not only not provide sufficient flexibility necessary for naval operations, but being so close to Venezuela and Colombia might raise political difficulties with those two countries. In this connection, you might mention that our two governments have agreed that, in the event of emergency, the only non-Netherlands forces to be stationed in the Antilles will be U.S. forces.

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[3] Reference is to an *aide-memoire* from the Netherlands Embassy, dated Oct. 3, 1952, hand-delivered to the Department of State on Oct. 4, not printed. (756B.5/10-352)

[4] These proposals are contained in an undated paper, titled "Proposed Guidance for the Military Discussions Between the United States Commander in Chief, Caribbean, (CINCARIB) and the Netherlands Antilles Military Authorities," and appended to a letter from Secretary of Defense Wilson to Secretary Dulles, dated Apr. 8, 1953, not printed. (756B.5/4-853)

[5] Dr. Jan Herman van Roijen, Netherlands Ambassador to the United States.

[6] Reference is to the *aide-memoire*, dated May 8, 1953, which Mr. Bonbright handed to Ambassador van Roijen at the Department of State on May 12. The *aide-memoire* contained, *inter alia*, a restatement of principles, based on Secretary of Defense Wilson's letter of Apr. 8 to Secretary Dulles, to guide discussion between United States and Netherlands military authorities concerning defense of the Caribbean area. (756B.5/5-853)

While we agree that a Dutch officer should be in command of local defense in time of war we believe that the nationality of that commander should be subject to review if U.S. forces are needed in such numbers so as to change substantially the relative strength of the two forces.[7]

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[7] On June 9, 1954, in response to the Department of State's *aide-mémoire* of May 8, 1953, the Netherlands Government proposed that oral discussions between United States and Dutch military authorities be initiated at Washington in order to formulate command relationships and to define defense tasks for the Caribbean area (Netherlands Embassy *aide-mémoire*, dated June 9, 1954, 756B.5/6–954). In an *aide-mémoire*, dated Sept. 14, 1954, the Department expressed agreement with the general idea, but indicated that it preferred to have the proposed discussions take place at Caribbean Command Headquarters, Quarry Heights, Canal Zone. (756B.5/6–954) On Oct. 7, 1954, the Netherlands Government informed the Department that it was prepared to open discussions in the Canal Zone on Nov. 9. (Netherlands Embassy *aide-mémoire*, dated Oct. 7, 1954, 756B.5/10–754)

Eisenhower Library, papers as President, Whitman file, NSC records

Memorandum of Discussion at the 143d Meeting of the National Security Council on Wednesday, May 6, 1953 [1]

TOP SECRET EYES ONLY

Present at the 143rd meeting of the National Security Council were the President of the United States, Presiding; the Vice President of the United States; the Under Secretary of State; the Secretary of Defense; the Deputy Director for Mutual Security. Also present were the Secretary of the Treasury; the Director of Defense Mobilization; the Director, Bureau of the Budget; the Acting Chairman, Atomic Energy Commission; Commissioner Thomas E. Murray, AEC; the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; Mr. Robert Cutler, Special Assistant to the President; Mr. Lewis L. Strauss, Special Assistant to the President; Mr. C. D. Jackson, Special Assistant to the President; Colonel Paul T. Carroll, Military Liaison Officer; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

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[1] This memorandum was drawn up by Deputy Executive Secretary Gleason on May 7.

There follows a general account of the main positions taken and the chief points made at this meeting.

[Here follows discussion of matters relating to the large ship reactor and aircraft nuclear propulsion programs, the situation in Indochina and Thailand, and possible courses of action in Korea.]

5. *Sale of modern aircraft to Latin American nations (NSC Action No. 775* [2]*)*

At Mr. Cutler's request, Secretary Smith spoke first as to the State Department's position with regard to this problem. Secretary Smith expressed full understanding of the desirability, from a military standpoint, of the standardization of weapons in Latin America and the desire of the military that these nations use United States aircraft. On the other hand, from the point of view of trade policy, Secretary Smith said that the State Department sympathized with the desire and need of the British to sell their own aircraft to Latin America. There were, therefore, these two points of view. Perhaps on the whole, thought Secretary Smith, the hemisphere defense argument was the stronger. In any case, he was prepared to go along with whatever view the Defense Department took.

The President expressed the thought that, for the moment at least, this issue was too insignificant to consume the Council's time. If, later on, it appeared that very large number of British aircraft were being sold in Latin America, it would be simple to resume consideration of the matter.

The National Security Council: [3]

Agreed that under present circumstances the sale of British aircraft to Latin American nations was not of sufficient significance to require action by the Council.

[Here follows discussion concerning NSC status of projects.]

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[2] See footnote 2 to the memorandum of discussion at the 141st NSC meeting, p. 147.

[3] The following statement constitutes NSC Action No. 783.

State-JCS Meetings, lot 61 D 417

Memorandum on Substance of Discussions at a Department of State–Joint Chiefs of Staff Meeting, Held in the Pentagon, 11 a.m., May 22, 1953 [1]

TOP SECRET

[Here follow a list of those present (21) and discussion of matters relating to Indochina and Yugoslavia.]

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[1] Generals Bradley and Collins and Admiral Fechteler were present; General White attended for General Vandenberg. Mr. Matthews headed the Department of State group.

Military Assistance for Central American States

General Bradley: We understand that you want to discuss the question of military assistance to Salvador, Honduras, and Nicaragua. We have been talking this over and what has worried us was how we could justify such assistance from a military point of view. It might be possible to present a reasonable military justification in the case of Nicaragua since that could be done in terms of anti-aircraft for the defense of the Panama Canal or defense against sabotage and infiltration, but for the countries other than Nicaragua we thought we would have great difficulties in testifying on the Hill as to the military justification for assistance.

Mr. Cabot: We have a serious situation in Guatemala with the Communists infiltrating and influencing the Government. Our first task is to keep this Communist nucleus from spreading and our second task is to eliminate it. My understanding is that the neighboring countries do not at present have sufficient forces to meet a military intervention. Nicaragua has asked us for a military assistance agreement. Salvador has stated its willingness to buy a certain amount of military equipment, but for political reasons would like to have any military assistance agreement in part kept secret. Honduras has so far not asked us for military assistance. For frankly political reasons it would help us as against Guatemala to be able to undertake military assistance to these countries. In terms of money or quantity of equipment there would not be a great deal involved.

General Collins: We could be on sound military grounds in justifying assistance to Nicaragua. The main threat against the Canal in case of war is basically the threat of guerrilla type infiltration and sabotage. Since we can honestly certify that military assistance to Nicaragua is justifiable, could we undertake an agreement with Nicaragua and let the other two countries purchase equipment?

Mr. Cabot: I would be prepared to settle for a certification for Nicaragua. The three Governments work very closely together in any case, and I am sure the other two would be glad to have a friendly country strengthened in a military way.

General White: Can't we do something about Guatemala? It seems to me that we shouldn't tolerate a Communist Country in Latin America.

Mr. Cabot: It isn't Communist yet but the Communists are infiltrating the government. This proposal for military assistance to neighboring states is, we think, a first step in doing something about Guatemala.

Representatives were also present from the National Security Council, the Central Intelligence Agency, and the Department of Defense.

A note on the source text reads as follows: "(Draft. Not cleared with any of participants.)"

Mr. Nash: I have shared your anxieties about Guatemala but I have grave doubts that to grant military assistance to the neighboring countries is the way to cope with the situation. It might conceivably do more harm than good. The question I have about it is not related to the amount of money or equipment involved but really as to whether a political problem like this is solvable by the approach of military assistance.

Mr. Cabot: We agree that the problem cannot be solved by purely military means, but the first thing we want to do is to develop some military strength on the Guatemala borders and in the second place in doing this it might be useful in pointing out to the Guatemalan Army the kind of help they are losing because they have the misfortune of operating under a Communist-influenced government.

Admiral Fechteler: Our people in the Navy share some of Nash's reservations.

Mr. Cabot: We naturally can't be assured that this will work out as a significantly successful approach, but our feeling is that it might do some good and we should at least make a try. We should demonstrate our willingness to help in Latin America in difficult situations like this and should as a minimum not be in the position of not having tried to do anything.

General Collins: I would like to say that from the Army's point of view I think it would be helpful for us to have closer relations with the Nicaragua military. It would assist us in gaining better intelligence and the closer staff connections would, it seems to me, lead to a good political effect. The Latin American officers who work with us and some of whom come to this country and see what we have and what we can do are frequently our most useful friends in those countries. I think that by and large our military assistance programs for Latin America is money well spent and I believe that programs of this type and specifically the suggested program for Nicaragua would add to the security of the United States.

Mr. Cabot: I am glad to hear you say that, General, and I must say that I thoroughly agree with you.

General Bradley: Doesn't the problem really boil down to a political question? From the military point of view, the JCS think that it is sound military justification for assistance to Nicaragua.

Mr. Nash: I agree that the question is primarily political.

Mr. Cabot: We think from our point of view that it is politically advantageous to undertake an assistance program.

General Collins: Since the Chiefs agree that assistance to Nicaragua is militarily justified, isn't the question primarily between State and Defense?

Mr. Nash: Is State willing to have an agreement with Nicaragua and not with Salvador and Honduras?

Mr. Cabot: Yes, we would be willing to go ahead on that basis. We would like, however, to reserve the possibility that we might make a proposal for similar agreements with Salvador and Honduras at a later date if that should then seem desirable.

Mr. Nash: Then I would suggest that the JCS send their recommendation to the Secretary of Defense and we can work it out with State.[2]

[Here follows discussion of matters related to Korea.]

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[2] In a letter to Secretary Dulles, dated June 18, 1953, not printed, Assistant Secretary of Defense Nash stated that the Department of Defense supported the Department of State's efforts to weaken Communist elements in Central America, and that Defense was prepared to recommend the inclusion of Nicaragua, but not of El Salvador or Honduras, in the grant military assistance program. (716.5 MSP/6-1853)

In a letter to Secretary Wilson, dated July 23, 1953, not printed, Mr. Matthews indicated the Department of State's concurrence with Defense's recommendation concerning Nicaragua, and he stated that the eventual participation of El Salvador and Honduras in the military assistance program should not be precluded, because this might become necessary to the accomplishment of the Department of State's political and psychological objectives in Central America. (717.5 MSP/7-2353)

110.24 AR/6-453

Memorandum by the Deputy Director of the Office of Regional American Affairs (Jamison) to the Assistant Secretary of State for Inter-American Affairs (Cabot)[1]

SECRET [WASHINGTON,] June 4, 1953.

The principal purpose of my visits to our Embassies in several South American countries following the Jurists' Meeting in Buenos Aires[2] was to discuss with the members of the respective Embassy staffs military relationships with the governments concerned, and particularly the military grant-aid program and its implementation. Having been involved in the development of the grant-aid program since Defense first proposed it early in 1951, and having watched it grow during the period when most of the basic agreements were negotiated, I was anxious to get as much information as possible to attempt an evaluation of the present state of its effectiveness, as well as to endeavor to find out what kinds of new headaches might develop for us during the subsequent stages of implementation. We are giving careful attention to certain of the specific problems which appeared, but I should like to summarize a few of the general impressions obtained during the course of visits to six countries involved in the program, varying from Uruguay, where the Agreement has not yet been ratified, to Peru, where greatest progress has been made in implementing the Agreement:

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[1] Addressed also to Mr. Woodward.

[2] Reference is to the second meeting of the Inter-American Council of Jurists, which was held in Buenos Aires, Apr. 20-May 9, 1953; for documentation concerning the meeting, see *Annals of the Organization of American States, 1953* (Washington, 1953), pp. 148-174.

(1) Now that we are at the stage of implementation of the program, the most important immediate question is whether the countries concerned demonstrate that they are able to create and maintain the specific units of their armed forces specified in the military plans, utilizing the training and equipment received from the United States in a way which will insure that the units are in a position to make a contribution to hemisphere defense if war should come. Much of the equipment consists of types which are relatively complex and which challenge the ability of relatively poorly trained and otherwise ill-prepared personnel. In practically all of the Embassies I discussed this question with either the attachés or with the chiefs of our training missions. Except in Ecuador, where the Chief of our Army Mission still feels that anti-aircraft equipment offers a greater challenge to the Ecuadoran soldier than he should be required to meet, I found no disposition to hold that the Latin American military personnel would not be capable of developing the techniques needed to handle the equipment. In Lima, Carl Breuer [3] and I attended a dress rehearsal held for the benefit of General Elmore [4] and other U.S. officers by an anti-aircraft unit, which has already received a considerable amount of U.S. equipment. Although I was not able to judge the fine points of the performance, it seemed to me that it was pretty uneven and that the battery would probably have been destroyed before the guns got into operation. However, Colonel Hill of Army G–3 in the Pentagon, for whose judgment I have great respect, said that, given the period of training, he believed that the unit had made considerable progress. In any event, there can be no question that it will be necessary for our MAAG and mission groups in these countries to continue to maintain constant vigilance to see to it that the equipment provided, and the men to use it, are utilized in a way which will insure that the matériel is not allowed to repose in a state of disrepair or disintegration.

(2) It will also be necessary to maintain a constant follow-up to insure that the other governments take steps required of them to keep these units in good shape. This involves such things as recruitment and training of additional personnel required, provision of storage facilities for equipment, development of adequate housing for personnel, and maintenance, where possible, of supporting units. For example, in Lima the Peruvian Army has undertaken to enlarge the cuartel now housing the anti-aircraft unit mentioned above, (which, incidentally, is named "Coronel O'Donovan") so that it will be adequate to take care of a unit of full battalion size. I was told that although our Mission Chief had been informed that this would be done quickly, no actual progress had been made. Again, the Air Force program contemplates the creation and maintenance of fighter and light bomber squadrons in certain countries. In some cases this means utilizing existing aircraft, while in others most of the planes will be furnished by the United States. In either case, ground crews and other supporting units are necessary. It was the view of the Air Attaché in Bogotá [5] that the Colombian government was as

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[3] First Secretary and Consul of the Embassy in Lima.

[4] Brig. Gen. John A. Elmore, USA.

[5] Lt. Col. Rex T. Barber.

yet showing no disposition to take the steps necessary to create these supporting units. In Ecuador there may be grave question of the ability of the Ecuadorian government to provide adequate storage and housing facilities. Although none of these problems appeared to have reached a stage of crisis, I am sure that the missions and the MAAGs will have plenty of work to do, and I believe we may anticipate that problems will develop which will be brought to our attention either by the Pentagon or by the other governments for action at the diplomatic level.

(3) Although we have consistently maintained, with the support of our Embassies, that the major part of the work normally performed by the MAAGs can and should be done by existing or enlarged Training Missions, there is one aspect of the resulting situation which may cause difficulty. Since the Training Missions are technically at the service of the Defense Ministry of the local government, and are at least partially paid for by that government, they may be called upon to perform functions which will limit their usefulness in implementing that grant-aid program. For example, the Colombian Navy now has a program under way for building and sending naval boats up the Orinoco River to supply the Army and to assist it in subduing the guerrillas in the llanos. This has required a considerable diversion of funds by the Colombian Defense Ministry from the creation of a training center to be used as part of the Naval grant-aid program. Furthermore, the Colombian Navy has requested our Naval Mission to lend its assistance to the development of this program, which is unrelated to the tasks involved in the grant-aid program. Since the Naval Mission cannot serve two masters, I understand that it has proceeded as requested by the Colombians, and the development of the Training Center has been postponed. (Incidentally, I was told that it is anticipated that the Training Center in Colombia will be used not only for training Colombians, but also for Ecuadorans and Venezuelans, and that this has been agreed to in principle by all three governments. If so, I believe this will make a new stage in inter-American military collaboration, but I doubt that we shall very soon get to the place where Ecuadorans will be training in Peru and vice-versa.)

(4) Political Impact of the program. Negotiation of military assistance agreements involving preparation for possible participation in collective defense of the hemisphere, undertaken at the instance of the United States, in which military equipment given by the United States plays an important part, was seized upon by the communists and the extreme nationalists as an issue which they used and perverted on every possible occasion. I believe this danger was anticipated when the program was launched, but some of us have had moments of doubt as to whether the military and political gains would be sufficiently great to counteract this fact. In general, I did not find any disposition to view with alarm the political repercussions of the program. In Chile, the country where local opposition was perhaps loudest and where the Military Agreement figured as an issue in the presidential campaign, I discussed this specific question at some length with Mr. Stewart,[6] Public Affairs Officer. It was his view that this was only one of many issues which the communists and nationalists were prepared to use, and that if we

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[6] Charles Allan Stewart.

were to be guided in our policy by not taking positions on the grounds of possible opposition from those sources, we would be foreclosed from undertaking any positive programs whatsoever. In Uruguay, another country where opposition has been virulent, I had an opportunity to discuss the program with Ambassador Mora and, very briefly, with the member of the Colorado faction who is shepherding the Agreement in the Chamber of Deputies. I did not find them disposed to view the program in any other light than as a positive effort on our part to strengthen the system of continental defense. In Ecuador, where the press still belabors the governments despite recent repressive measures, and where I believe the type of our equipment assistance is most open to question, the Minister of Defense was working hard to insure that the required Ecuadoran contribution for local currency would be immediately forthcoming.

Although communist and nationalist propaganda has had some effect in delaying legislative approval of the agreements in certain countries, the degree of success in obtaining such approval in all but Uruguay has also demonstrated the ineffectiveness of such efforts to turn the issue against the United States. On a number of occasions highly advertised "mass demonstrations" have fizzled completely, and even in Uruguay the Colorado majority voted to press for ratification in the face of determined efforts to tie the question to the "wool tops" issue.[7]

In the long run, I believe that the question of whether the program will result in political gains outweighing the disadvantages of intensified anti-American propaganda will depend upon whether practical military results are forthcoming. If it could be assumed that there will be no requirement for a Latin American military contribution in the event of war, or that the Latin American countries are incapable, even with our assistance, of making a manpower contribution to collective hemisphere defense, then it would seem to have been disadvantageous and unwise to have offered hostile elements an opportunity to stoke the fires of Yankeephobia. I do not believe either of these assumptions is warranted. Furthermore, it seems to me that, from the political and psychological viewpoint, we have made considerable progress in creating greater awareness, at least among political and military leaders, of the collective responsibility for continental defense. Whether this takes effect and is extended depends to a very large extent upon whether the military potential for participation is actually developed to the place where it can be used effectively. On the basis of my discussions and relatively brief observations, I believe that, although there are many obstacles yet to be overcome, the prospects for constructive gain are good.

In Venezuela, which is not participating in the grant-aid program, there are special problems revolving principally around the necessity for insuring that a country which is prepared to pay for military equipment and whose strategic importance is paramount, is not given a priority position behind that of the grant-aid countries.

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[7] For documentation relating to this subject, see pp. 1535 ff.

720.5/8-1253

Minutes of a Meeting Between Representatives of the Department of State and the Department of Defense, Held in Washington, August 12, 1953 [1]

SECRET

Those Present:

Defense [*U.S. Delegation, IADB*]
Major General Robert M. Webster (USAF)
Major General F. A. Allen (USA)
Rear Admiral Milton E. Miles (Navy)
Colonel William Massello (USA)
Captain Joseph W. Leverton (Navy)
Colonel Willis F. Lewis (AF)
Colonel Edward W. Durant (MC)
Major George Williamson (USAF)

State ARA—Mr. John M. Cabot, Assistant Secretary
ARA—Mr. Robert F. Woodward
ARA—Ambassador John C. Dreier
AR—Mr. Edward A. Jamison
AR—Mr. George O. Spencer
AR—Mr. Robert M. Sayre

Subject: First State-Defense Meeting on Latin American Military Relations

Mr. Cabot mentioned first the interest of both the Departments of State and Defense in holding regularly scheduled meetings on Latin American military relations between the U.S. Delegation to the Inter-American Defense Board and top officials in the Bureau of Inter-American Affairs of the Department of State. General Webster stated that the U.S. Delegation to the Inter-American Defense Board thought that such meetings would be helpful. It was suggested that the most appropriate time to hold these regularly scheduled meetings would be just prior to submission of the progress report on the Latin American policy statement. It was the consensus that this would be an appropriate time for such high-level meetings and the second meeting was therefore scheduled for October 19* at the Pentagon.

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[1] The meeting was apparently held in the Department of State. The minutes were drafted by Mr. Sayre on Aug. 18.

*This date was changed from September 21 to October 19 because progress reports are submitted every four instead of every three months. The next report would be due on or about November 1. [Footnote in the source text. The second meeting was held Nov. 5; see p. 164.]

Caracas Conference.

Mr. Cabot referred to the forthcoming Tenth Inter-American Conference to be held in Caracas in March, 1954 [2] and emphasized the importance of the Conference in policy formulation. He said that the Department of State desired to have any comments or suggestions that the Department of Defense might wish to make with respect to the agenda for this Conference. Amb. Dreier interposed that the Department of State had received an interim reply [3] from General Webster and went on to say that the Department of State would appreciate receiving any specific suggestions by September 15.[4] Mr. Cabot remarked that it was not clear what the Tenth Conference would concern itself with primarily but he thought that it would be principally problems of an economic nature. He said our policy at the Conference would depend largely upon the report [5] presented by Dr. Milton Eisenhower as a result of his recent fact-finding mission to South America.[6] He expected that the Conference might consider such specific problems as the Peru–Ecuador Boundary Dispute, the Haya de la Torre case,[7] and the communist situation in Guatemala.

Dominican Proposal for Conference on Communism.

Mr. Cabot referred briefly to the proposal of the Foreign Minister [8] of the Dominican Republic to hold a meeting of foreign ministers of the American republics on the subject of communist subversion in the Western Hemisphere. He said that the proposal confronted this Government with certain problems. On the one hand we are very anxious to do everything possible to control communism in the hemisphere but at the same time it was difficult for us to act on this proposal because it had been made by Generalissimo Trujillo, who is not regarded favorably by a number of Latin American countries. A foreign ministers meeting as proposed would also interfere with the scheduled Tenth Inter-American Conference which is the supreme organ in the inter-American system and would therefore appear to be the most appropriate forum to consider this problem. Mr. Cabot said that, while the reply to the Dominican proposal would stress our interest in controlling communist activities in the hemisphere, it would probably be negative.

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[2] Reference is to the Tenth Inter-American Conference, held in Caracas, Mar. 1–28, 1954; for documentation concerning the conference, see pp. 264 ff.

[3] Apparent reference to an undated letter to Ambassador Dreier, not printed, in which Major General Webster stated that inasmuch as the draft agenda for the Tenth Inter-American Conference contained no matters of military concern, the Department of Defense had no constructive comment to offer. (OAS files, lot 60 D 665, "Pre-Conference-1. Agenda, General")

[4] In a letter to Ambassador Dreier, dated Sept. 28, 1953, Colonel Lewis stated in part that the Department of Defense recommended that when representatives of the Department of State participated in meetings pertaining to the agenda for the Tenth Inter-American Conference, they should "resist the inclusion of military topics that may result in imposition of any special demands on the United States." (362/9–2853)

[5] For text of the report, submitted to President Eisenhower under date of Nov. 18, 1953, see *United States-Latin American Relations: Report to the President* (Department of State Publication 5290, Washington, 1953), or Department of State *Bulletin*, Nov. 23, 1953, pp. 695–717.

[6] Dr. Eisenhower visited the ten countries in South America during the period June 23–July 29, 1953; regarding his mission, see the editorial note, p. 196.

[7] Reference is to the controversy between Colombia and Peru concerning the status of Víctor Raúl Haya de la Torre, the Peruvian political leader who sought asylum in the Colombian Embassy at Lima in January 1949, and was unable to obtain safe conduct to leave until March 1954, when the Peruvian Government allowed him to proceed to Mexico.

[8] Presumably Virgilio Díaz Ordóñez.

Visit of Dr. Milton Eisenhower to Latin America.

Turning next to Dr. Eisenhower's trip to Latin America, Mr. Cabot said it had three principal purposes:

1. It was intended as an expression of good-will toward South America on the part of the U.S. From this standpoint, the visit was eminently successful.
2. It gave the new Administration an opportunity to study the situation in Latin America. This aspect of the visit was not as successful as Dr. Eisenhower would have liked because a great deal of time that might have been spent on fact-finding was consumed by required social functions and other similar activities.
3. An important purpose of the visit was to provide the Administration with the essential facts required to revitalize our Latin American policy and to develop a program for Latin America. Mr. Cabot said that of course this was the real purpose of the visit and that the new Administration was just getting a start on developing a new program for Latin America.

He said certain problems would have to be considered in any such program such as the very serious economic situation in Bolivia, and the difficult economic problems facing Chile.

He mentioned briefly the fact that Dr. Eisenhower's party was somewhat surprised at the very genuinely cordial reception they received in Argentina. He said that of course the U.S. has no desire to feud with any country in Latin America including Argentina, and, although we were still skeptical that it would prove possible, we would welcome cooperation with Argentina. Mr. Cabot referred to the visits of naval vessels to Latin American countries and thought that it would be desirable if Argentina could be included in a forthcoming visit which would also include the other two countries on the east coast of South America (Brazil and Uruguay). Admiral Miles recalled the recent visit of an aircraft carrier to Rio de Janeiro, Santiago and Lima enroute to the Pacific. He said that he had suggested to the Department of State that Buenos Aires be included in the itinerary but this suggestion had not been received favorably and for that reason it was also believed desirable to drop Montevideo from the itinerary. Mr. Cabot recommended that Argentina be included in a future naval visit to the countries on the east coast of Latin America.

One of the problems raised with the Eisenhower party was the dissatisfaction of the Venezuelan Government over the assistance it has received in purchasing military equipment from the U.S. Government. Mr. Cabot mentioned in particular the fact that Venezuela had apparently been unable to obtain new naval vessels and aircraft. Admiral Miles said that it was true that the Navy did not have any excess destroyer-type vessels to sell to Venezuela. He said that the Navy had however, in response to a Venezuelan request, offered to construct destroyers for Venezuela for $22,000,000 each. Some time later, Commander Moreno [9] of the Venezuelan Navy visited the Department of the Navy and complained that no reply had been received to their request. Subsequent investigation disclosed that the Naval Attaché of the Venezuelan Embassy had failed to forward the information to Caracas. At the same time this delegation from Venezuela was in Washington, another Venezuelan delegation was signing a contract in England to purchase three destroyers from an English ship building firm for $21,000,000. Adm. Miles said that the U.S. could not compete with British prices on naval vessels but that the Department of the Navy had offered to train Venezuelan crews of these vessels when they are received.

Colonel Lewis commented on the availability of jet aircraft. He said that in response to a request from the Commanding General, Caribbean Air Command,[10] information on the availability of jet aircraft had been furnished to him and it was expected that he in turn would make it available to Latin American countries through the Air Mission Chiefs or the Air Attachés. He said that Venezuela had purchased and received 20 vampire jets from Great Britain, that they had contracted for and are receiving six Canberra bombers and may have contracted for six more. He doubted that Venezuela would be interested in any further purchases of jet aircraft. He went on to say that Venezuela was purchasing from the U.S. substantial quantities of spare parts for conventional aircraft. The Air Force, he said, had the same difficulty as the Navy in being unable to compete with British prices. His information was the British are able to make available the Gloster Meteor, which is a second-line jet aircraft, for something like $65,000. Our first-line jet trainer, the T–33, could be made available for about $124,000 and our second-line F–80 jet fighter for about $94,000. Our first-line F–86 would cost approximately $422,000. These estimates did not include spare parts or ground handling equipment.

In Ecuador, the problems of a military nature which were considered by the Eisenhower party concerned the interest of the U.S. Naval Mission to Ecuador in providing Ecuador with suitable naval patrol craft under the military grant-aid program and the reimbursable provisions of the Mutual Defense Assistance Act of 1949, as amended, and the creation by Ecuador of an anti-aircraft battalion under the bilateral Military Assistance Agreement. Adm. Miles said that he was aware of the proposal to provide Ecuador with patrol craft and that he supported it.

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[9] Col. Félix Román Moreno.

[10] Brig. Gen. Ruben C. Hood, Jr.

Nicaraguan Participation in Military Assistance Program.

Mr. Cabot asked what progress was being made within the Department of Defense on the proposal to include Nicaragua in the military assistance program. General Allen understood that the matter was progressing satisfactorily within the Department of Defense and that a letter [11] would be sent to the Department of State in the near future stating that the participation of Nicaragua in the program had been found necessary in accordance with hemisphere defense plans and recommending that the President be requested to make the finding required by Mutual Security legislation. Mr. Cabot said he hoped this matter could be taken care of as soon as possible because the Department of State believed such an arrangement with Nicaragua would be a stabilizing influence in Central America. Adm. Miles expressed disagreement with this point of view. He thought an agreement with Nicaragua and not with the other Central American countries would serve only to drive them further from us and Guatemala in particular further into the arms of the communists. Mr. Cabot replied that El Salvador was purchasing arms from the United States and was apparently not very anxious to sign a military assistance agreement unless it could be kept confidential, which would be difficult. Honduras does not appear to be too anxious to participate either. Mr. Cabot thought that there might be some dissatisfaction on the part of Costa Rica but Costa Rica did not appear to have any military potential to warrant considering an agreement with that country. As regards Guatemala, he did not think that concluding an agreement with Nicaragua would in itself make the situation any worse in Guatemala and would have the advantage of making it very clear to that Government where the U.S. stood.

Navy Shipping Control Stations in Latin America.

Admiral Miles said that the Department of the Navy was now working on plans to establish shipping control stations in Latin America. This responsibility had been assigned to the United States by NATO. Arrangements to establish such stations would be made between the United States Navy and the countries concerned. He thought it would be necessary, however, to precede such arrangements with an agreement on the diplomatic level. Two problems were now holding up finalization of the plans: (1) it is expected that the *quid pro quo* for agreeing to the establishment of such stations will be a request by the Latin American countries for equipment to operate the stations for which the Navy is now trying to arrange and (2) it is essential that all such stations throughout the world use common signals, etc., and the Navy is meeting rather strong resistance from the British in making NATO classified documents on signals, etc., available to Latin American countries.

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[11] See the editorial note, p. 168.

Mr. Cabot said that the Department of State would like to be kept informed on the progress of these plans and would of course render all appropriate assistance.

Regular Staff Level Meetings Between State and Defense.

General Webster said that he understood there was a desire, both in State and Defense, to hold regular meetings on Latin American military problems at the staff level. Mr. Jamison said that he thought some arrangement for a regular exchange of the views on Latin American military problems at the staff level would be very useful. It was agreed that arrangements would be made at the staff level in Defense and State to hold such meetings, probably as frequently as monthly.

Participation of Haiti in the Military Assistance Program.

Admiral Miles inquired concerning action within the Department of State on a request from Haiti to be included in the military assistance program. Mr. Spencer replied that a memorandum [12] had been sent (on June 15, 1953) to Major General Stewart requesting information on whether the Department of Defense believes an agreement with Haiti would be desirable from the military point of view and whether the Department of Defense is prepared to develop a hemisphere defense role for Haiti.

Mr. Cabot closed the meeting by urging that continuing and careful attention be given to the relative amounts of attention and assistance that might be given to Brazil and Agrentina. He said that Brazil is our best friend in the hemisphere and that the United States had to be very careful that it did not offend either Brazil or Argentina.

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[12] No copy of the referenced memorandum to Maj. Gen. George C. Stewart, Director of the Office of Military Assistance, Department of Defense, drafted by Mr. Spencer and signed by Edwin M. Martin, was found in Department of State files; a memorandum by Mr. Sayre to Mr. Spencer, dated June 28, 1953, indicates that the memorandum of June 15 was misplaced. (738.5 MSP/6–2853)

720.022/10-3053

The Secretary of Defense (Wilson) to the Secretary of State

SECRET [WASHINGTON,] October 30, 1953.

DEAR MR. SECRETARY: Reference is made to a letter from your Department dated 4 August 1953 [1] signed by the Deputy Under Secretary of State, Mr. H. Freeman Matthews, concerning the United States Mapping Program in Latin America.

The continued concern and support of the Mapping Program by the Department of State and its various embassies is greatly appreciated. This program is under constant surveillance within the Department of Defense, and every practicable effort consistent with Defense requirements, other world-wide obligations and budgetary limitations have and will be made to fulfill our obligations to each of the Latin American countries with whom bilateral mapping and charting agreements exist. It is also the desire of the Department of Defense to faithfully fulfill these bilateral commitments.

Analysis of the Mapping Program progress reports reveals that excellent progress in all ground phases of the program has been made since 1950. While some aerial photography has been accomplished and practically all that has been taken delivered since 1950, this phase of the program and the dependent topographic mapping program have suffered due to other high priority projects throughout the world. The demands of the Korean War precluded accomplishment of mapping projects in Latin America that had otherwise been planned.

The limited aerial photography equipment available to the Air Force has precluded aerial photography of low priority projects since 1949. You may be assured, however, that every effort will be made to provide aerial photography for the United States-Latin American Mapping Program consistent with equipment availability and priority of the project.

A similar situation has also existed with regard to Department of Navy capability in the areas. However, during the first three months of 1953, a naval photographic detachment operated in various parts of Central and South America, and it is planned to continue this operation during the period of January-March 1954 in Central America, the Dutch West Indies and the Lesser Antilles.

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[1] In the referenced letter, Mr. Matthews stated in part that the completion of the bilateral mapping program cooperatively developed with 17 of the Latin American countries "is important to western hemisphere defense planning for which it was undertaken, as well as to economic development programs in Latin America in which the United States is participating and to our political relations with Latin American countries." Mr. Matthews further stated that the fulfillment of U.S. commitments under the mapping agreements would help to demonstrate to the Latin American countries "the importance which the United States attaches to them and to their continuing cooperation with and assistance to the other nations of the free world." (720.022/8-453)

To supplement the capabilities of the Air Force and Navy, the Department of the Army has budgeted funds for commercial air photography and is now in the process of contracting for aerial mapping of northern Venezuela and the northern and western portions of Colombia.

This Department concurs with your position that the existing agreements should not be renegotiated at this time.[2]

Sincerely yours, C. E. WILSON

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[2] In a memorandum to Norman M. Pearson, dated Nov. 9, 1953, Mr. Sayre stated in part that this letter from the Department of Defense "is somewhat of an assurance that a little more will be done than before. I do not think we need do anything in the nature of a reply but we may have to 'go to bat' again if the Latin Americans continue to be dissatisfied about the long delay in fulfilling these commitments." (720.022/10-3053)

710.5/11-553

Minutes of a Meeting Between Representatives of the Department of State and the Department of Defense, Held in the Pentagon, November 5, 1953

TOP SECRET

Those Present:

Defense *U.S. Delegation, IADB:*
Major General Robert M. Webster (USAF)
Rear Admiral Milton E. Miles (Navy)
Colonel William Massello (USA)
Captain Joseph W. Leverton (Navy)
Colonel Willis F. Lewis (USAF)
Lt. Colonel James M. Hall (USA)
Major George W. Williamson (USAF)

State ARA—Mr. John M. Cabot, Assistant Secretary
AR—Mr. Edward A. Jamison
AR—Mr. Robert M. Sayre

Subject: Second State-Defense Meeting on Latin American Military Relations

General Webster opened the meeting by reminding those present that the primary objective was to review and collaborate in the preparation of the military portions of the Second Progress Report on NSC 144/1.[1]

General Webster then stated that the U.S. Del. had reviewed the second draft [2] prepared by Department of State and desired to offer certain suggestions. He pointed out that the narrative style was susceptible to debatable expressions of opinion and lacked the concise, factual type of statements that could be easily read and understood.

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[1] NSC 144/1, a report titled "United States Objectives and Courses of Action With Respect to Latin America," dated Mar. 18, 1953, and the referenced progress report, dated Nov. 20, 1953, are printed on pp. 6 and 26.

[2] Not found in Department of State files.

[Here follows discussion of proper drafting style of reports for the National Security Council.]

A U.S. Del. re-draft [3] of the State Department second draft was then examined. This re-draft contained only minor deletions and additions and Mr. Cabot after a cursory review stated he thought there would be no objections to the proposed amendments.

Admiral Miles asked that the portion of the re-draft dealing with the proposed Permanent Joint Board Defense Brazil–U.S. be further amended to clearly indicate that any delay in the establishment of this Board was on the U.S. side and that the Brazilians had not in any way impeded progress. It was agreed to incorporate appropriate wording in the final draft to cover this point.

The reference in the report to renewal of mission agreements with Guatemala was then discussed. Adm. Miles asked if it was a fact that the USAF desired renewal. Mr. Sayre stated that both the Army and Air Force had concurred in extension of the Missions and Embassy Guatemala had been instructed to take an opportune moment to bring the matter up with the foreign office but that there had been no positive action to date. Mr. Cabot said he had some misgivings regarding this course of action, pointing out the mixed reaction that the people in the U.S. and our anti-communist friends in Latin America could have upon learning that we were taking steps to extend this type of military collaboration with a government so completely dominated by antagonistic elements.

Colonel Lewis expressed the opinion that those military persons who would receive the training the U.S. proposed were not Communists. Mr. Cabot agreed that this was probably true and that this cold logic supported the action but that his misgivings had been in the psychological and propaganda area.

General Webster then made reference to a draft statement of policy and staff study that had been prepared by the Department of State for consideration by the NSC planning board. This document deals with U.S. objectives and courses of action with respect to Venezuela.[4] It was pointed out that this 46 page document had been received by the U.S. Del. only that morning and that comment and recommendations had been requested within two working days. It was suggested that in the future the U.S. Delegation be permitted to collaborate in the drafting of the military portions of such studies in the early or formative stages; or that in any event, a copy of the drafts be expeditiously transmitted to the U.S. Delegation simultaneously with those going to NSC.

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[3] Not found in Department of State files.

[4] The draft statement of policy, entitled "United States Objectives and Courses of Action With Respect to Venezuela", dated Oct. 22, 1953, is printed on p. 1653. A copy of the staff study accompanying the draft statement is in S/P–NSC files, lot 61 D 167, NSC 144/1.

Mr. Cabot stated that he was not informed with respect to the document under consideration but that he was in agreement that better coordination should be effected and that he would see if arrangements couldn't be made to provide the Department of Defense with a draft of these papers before they were submitted to the NSC.

Colonel Lewis said that while he had not had an opportunity to study the Venezuelan paper, he had noted that the subject of higher priorities for equipment requested by Venezuela was discussed. He pointed out that the priority question would pose a very difficult problem. Adm. Miles in discussing priorities pointed up the need for a priority criteria explaining that the terms "high priority" had no real meaning for those responsible for implementation. He suggested that it might be desirable to establish a degree of priority by relative rank. Thus the priority granted Venezuela might be stated as after Denmark, and before Brazil, etc.

Colonel Lewis stated that by JCS decision, all priorities for Venezuela were on a case by case basis and that no other country in Latin America enjoyed even that distinction. No further discussion of this problem was had because those present had not had an opportunity to study the draft.

General Webster then stated he understood Mr. Cabot wanted to discuss grant aid for Nicaragua. Mr. Cabot asked if a decision on this subject had been reached and was told that JCS had made recommendations to the Secretary of Defense [5] that would perhaps be reflected in a letter from the Secretary of Defense to the Secretary of State in the next few days.[6]

Mr. Cabot then turned to a discussion of aid to El Salvador explaining that in some official circles the Salvadorans seemed to think we had let them down. El Salvador had requested price and delivery information on a rather substantial amount of equipment. After the requested data was furnished actual orders were placed for a very insignificant quantity. Col. Massello stated that the U.S. Army has agreed to furnish all equipment ordered by El Salvador and suggested that El Salvador simply did not have the money to purchase as much as it desired.

It was agreed that El Salvador probably expected a grant of the equipment on their list which they had not offered to buy. Mr. Cabot observed that the Salvadorans had some time ago made inquiry about grant aid and indicated they would not be agreeable to a bilateral military pact except on a secret basis which is not in accord with U.S. legal requirements.

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[5] On Oct. 24, 1953.

[6] Acting Secretary of Defense Kyes wrote to Secretary Dulles on Nov. 17, 1953. For information concerning the letter, see the editorial note, *infra.*

Mr. Cabot expressed concern regarding the publication of a historical report [7] pertaining to Latin America during World War II. He expressed the thought that the U.S. would experience difficulty obtaining bases and facilities in the Latin America area if we talked too much with respect to our past relationships with the various governments. Mr. Jamison said that he had first seen a draft of the proposed document with a restricted classification about a year ago and that he had at that time advised that the document contained much that would be politically embarrassing to the Latin American governments if published. Specific reference for example was made to the secret agreement with Brazil dated 1942.[8] Adm. Miles suggested that the Department of State refuse to coordinate until such time as a decision by the JCS had been made. Col. Hall said he had recently talked with Col. O'Connor [9] of the Historical Branch about this document. Col. O'Connor had stated that the comments they then had from Col. Hill, former Chief of the Latin American Branch, G-3, Department of the Army, and from the State Department were being used to prepare a "sanitized" draft. Col. Hall had suggested to Col. O'Connor that this "sanitized" version be referred to the U.S. Delegation for its consideration.

Mr. Jamison then asked if there had been any further developments with respect to the establishment of shipping control stations in Latin America. Adm. Miles reported there had been no substantive progress. The present problem still appeared to be equipment and he felt in all probability those nations participating in the plan would expect grant of the required radio transmitters. He thought such an expectation would be reasonable but that he had been unable to obtain from within the Department of Navy necessary funds.

Mr. Jamison then raised the problem of providing personnel required by the Venezuelan Air Force for training in operations and maintenance of Canberra aircraft recently purchased from England. It developed that the Venezuelans who now have 6 aircraft of this type have, in accord with the provisions of the mission agreement now in force, requested permission to employ British military technicians to accomplish this training. It was agreed that the encroachment by the British into this area was generally not desirable. Col. Lewis pointed out that as of this date, the U.S. only has one Canberra and that furthermore, the one aircraft we have is substantially different in all respects except configuration from the Canberras that have been delivered to the Venezuelans. Col. Lewis suggested that it might be possible to augment our present mission strength with personnel who have had experience in operation and maintenance of USAF twin-jet type such as the B–45. No decision was reached in this area.

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[7] Presumably a reference to an early draft manuscript by Stetson Conn and Byron Fairchild for a volume in the series U.S. Army in World War II, eventually published as *The Western Hemisphere: The Framework of Hemisphere Defense* (Washington, 1960).

[8] Apparent reference to the defense agreement between the United States and Brazil, signed at Rio de Janeiro, May 28, 1942; for information on the negotiation of the agreement, see *ibid.*, pp. 317–319. For documentation concerning an attempt to revise the agreement, see *Foreign Relations*, 1951, vol. II, p. 1184 ff.

[9] Col. George G. O'Connor, Chief of the War Histories Division, Office of the Chief of Military History, Department of the Army.

Adm. Miles then asked if the Department of State had any knowledge of recent procurement by Brazil of transport type vessels manufactured in Japan. He described recent activities of an agent for the Japanese shipping interests who has a rather unsavory reputation. Adm. Miles stated that he had no objection to Brazil buying this type of equipment from Japan, as a matter of fact, thought it might be a good move on their part. He was afraid however that Brazil might be dealing with an individual who was unscrupulous and that this relationship might eventually result in difficulties for Brazil.

Mr. Sayre said that he would make an attempt to get further information on this story and give it to Adm. Miles direct.

There being no further business, the meeting was adjourned.[10]

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[10] An appended distribution list is not printed.

Editorial Note

In a letter to Secretary Dulles, dated November 17, 1953, not printed, Acting Secretary of Defense Kyes stated that the Department of Defense recommended the initiation of a program of grant military assistance to Nicaragua and proposed that President Eisenhower be requested to make the necessary finding required by the provisions of section 401 of the Mutual Security Act of 1951, as amended. The Acting Secretary further stated that although the Department of Defense continued to believe that neither El Salvador nor Honduras was in a position to make substantial contributions to hemispheric defense, the Joint Chiefs of Staff recognized that the interests of the United States would be served by their inclusion in the grant military assistance program. (717.5 MSP/11–1753) In a letter to Mr. Stassen, dated November 24, 1953, Secretary Dulles indicated his concurrence with the Department of Defense's recommendation concerning Nicaragua. (717.5 MSP/11–1753)

In a letter to Secretary Dulles, dated November 25, 1953, not printed, Assistant Secretary of Defense Nash informed the Department of State that the Joint Chiefs of Staff recommended that El Salvador and Honduras be included in the grant military assistance program, and proposed that the Department of State initiate a request to the President to make the necessary finding. (716.5 MSP/11-2553) In a letter to Mr. Stassen, dated December 2, 1953, not printed, Acting Secretary of State Smith indicated the Department's concurrence in Defense's recommendation concerning El Salvador and Honduras. (716.5 MSP/11-2553)

In a memorandum for the President, dated December 8, 1953, not printed, Mr. Stassen concurred in and transmitted the recommendations of the Departments of State and Defense requesting the President to make the findings required by law as a prerequisite to the furnishing of limited military assistance to Nicaragua, El Salvador, and Honduras. (717.5 MSP/12-1453) On December 9, 1953, the President authorized the initiation of negotiations for the purpose of concluding bilateral military assistance agreements with Nicaragua, El Salvador, and Honduras.

S/P-NSC files, lot 61 D 167, NSC 144 series

Memorandum by the Assistant Secretary of Defense for International Security Affairs (Hensel) to the Special Assistant to the President for National Security Affairs (Cutler) [1]

CONFIDENTIAL WASHINGTON, February 2, 1954.

Subject: Acceleration of Deliveries to Latin America Under the MDA Program

1. You will recall that Action 980-*c* [2] notes the President's desire that the Department of Defense investigate the feasibility of accelerating deliveries of military equipment to the Latin Republics.

2. The Military Departments have taken steps to accelerate the delivery of military equipment to Latin America.

3. A detailed report of delivery estimates, revised in the light of the President's request that deliveries to South America be accelerated, is attached.

For the Assistant Secretary of Defense (ISA):
A. C. DAVIS
Vice Admiral, USN
Director, Office of Foreign Military Affairs

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[1] NSC Executive Secretary Lay, under cover of a memorandum dated Feb. 4, 1954, not printed, transmitted this memorandum and its attached report to the NSC for information.

[2] Action taken at the 174th meeting of the National Security Council, held in Washington, Thursday, Dec. 10, 1953, and subsequently transmitted to the Secretary of Defense for implementation. (S/P-NSC files, lot 62 D 1)

[Annex]

Report Prepared in the Department of Defense

CONFIDENTIAL

ESTIMATES OF DELIVERIES TO LATIN AMERICA UNDER THE MDA PROGRAM

1. The Department of the Army estimates that all items in the FY 1952–53 MDA Programs scheduled for Latin American countries will be shipped by June 30, 1954 with the following exceptions:

a. 144 Mounts, Trailer, Multi, Cal .50 MG, M55. (Will be shipped by September 1954)
b. 24 Howitzers, 105mm, M2A1, with Carriage. (Will be shipped by December 1954)
c. 5 Directors, AA, British No. 11, or similar type. (Will be shipped by June 1955)
d. 5 Radars, British No. 3 MK VII. (Will be shipped by June 1955)

This latest forecast indicates that the shipment of items to Latin American countries will be completed six months earlier than had formerly been estimated.

2. The Department of the Air Force formerly estimated that the shipment of all items in the FY 1952–53 MDA Programs to Latin American countries would be completed by December 1954. The shipment of Air Force items is being accelerated and it is now estimated that all items except those listed below will be shipped by June 1954:

a. 5 PBY-5A Aircraft for Chile. (Will be shipped by September 1954)
b. 35 Radio Compasses, AN/ARN-6 for Brazil. (Will be shipped by September 1955)

3. The current Navy MDA Matériel Programs for Latin America do not include any major items (i.e. ships or aircraft), other than those vessels furnished under Lend Lease for which title has already been transferred under authority of MDA legislation. The matériel programmed consists of a large number of small items and for this reason itemized information on shipment forecasts is not readily available. Naval supply activities processing MDA matériel have been directed to review all supply requisitions in process and to take aggressive follow-up action in any case in which it appeared that the desired delivery dates might not be met.

4. The items listed in paragraphs 1-*a* through *d* and 2-*a* and *b* above, based on the best current estimates of availabilities, will not be delivered by June 1954 for the reason that MDA requirements for these items in other geographical areas have a higher priority.

5. The value of the FY 1952-54 MDA Programs for Latin American countries is $67.8 million. As of November 30, 1953, $18.7 million or 27% of the programs had been shipped.[3]

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[3] A memorandum to Acting Secretary of State Smith from Mr. Cabot, dated Feb. 9, 1954, reads in part as follows: [Paragraph 5 of this report] "appears to be in error in stating the value of the program as $67.8 millions for FY 1952-54 inclusive. (This error has been called to Defense's attention, and Defense will make the correction.) Some $101.9 millions have been appropriated for those 3 fiscal years, and it is our understanding $93.3 millions of this is for end-items, etc. As of Nov. 30, 1953, therefore, the value of equipment shipped ($18.7 millions) was less than half of the $38,150,000 appropriated for FY 1952 alone." (S/P-NSC files, lot 61 D 167, NSC 144/1)

S/P-NSC files, lot 61 D 167, NSC 144 series

Paper Prepared in the Department of Defense[1]

SECRET [WASHINGTON,] 23 June 1954.

DEFENSE COMMENTS ON U.S. MILITARY STANDARDIZATION IN LATIN AMERICA (NSC 144/1)

GENERAL CONSIDERATIONS

1. One of the objectives of the United States with respect to Latin America, set forth in NSC 144/1, is as follows:

> "*g*. The ultimate standardization of Latin American military organization, training, doctrine and equipment along U.S. lines."

2. A trend away from this objective is taking place and is highlighted by the increasing number of purchases of European military equipment by Latin American countries. This is caused, in large measure, by the inability of these countries to purchase military equipment from the U.S. on the terms and delivery schedules desired. Although there are no European military training missions in Latin America at the present time, there are European technical advisers in the area, and this in addition to the trend towards use of European military equipment may lead to the introduction of such missions. Such a development would adversely affect the U.S. objective quoted above.

3. U.S. military aid to Latin America is of two types, grant aid and "reimbursable aid." Under the latter category Latin American countries may purchase equipment from the U.S. Government under Section 408(*e*) of the Mutual Defense Assistance Act of 1949, as amended. The

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[1] For submission to the National Security Council.

flexibility of U.S. Government action in making sales under Section 408(*e*), however, is considerably restricted at the present. European countries, on the contrary, are offering low prices, rapid delivery, and easy payment terms, including long-term credits, purchase by soft currency, and barter deals. To achieve fully U.S. military standardization objectives, the U.S. should be in a position to offer competitive terms and deliveries.

4. The purchase of European military equipment is most pronounced with regard to Latin American air forces. The major Latin American countries now appear anxious to augment U.S. World War II types which they have obtained in the past. Within the past two years Venezuela has purchased 25 British jet aircraft, and Brazil has bartered 15,000 tons of cotton for 70 British jet trainers and fighters. Chile has recently acquired 5 British jets, reportedly under a barter arrangement for Chilean nitrates. In the last few weeks it has been reported that Ecuador, after failing to make satisfactory terms with the U.S. for the purchase of F–86 jet fighters, is about to sign a contract with the U.K. for an unspecified number of jet bombers and fighters. Over 60% of Argentina's aircraft are of non-U.S. origin. (See Annex [2] for further details regarding European aircraft in Latin America.)

5. U.S. Navy objectives in Latin America with respect to standardization of equipment have, likewise, not been fully successful. Colombia, Brazil, Chile, and Venezuela have recently entered into contracts for the purchase of significant quantities of naval vessels and equipment of non-U.S. origin. (See Annex)

6. Standardization of U.S. Army equipment is proceeding in a generally satisfactory way, except for Guatemala. Most of the heavy army equipment in all the Latin American countries is of U.S. manufacture, although the greater percentage of small arms is of European origin. (See Annex)

7. The legislative provision under which the U.S. can sell military equipment to its allies is Section 408(*e*) of the Mutual Defense Assistance Act of 1949, as amended. Under this Section, *new equipment* must be paid for in dollars prior to delivery. In the case of *used equipment* or of *equipment already in stock,* payment must be made before delivery, or, exceptionally, within 60 days thereafter if the President makes a determination that it is in the best interests of the U.S. to extend such credit.

8. Section 107 of the draft of the Mutual Security Act of 1954, now before the Congress, would liberalize Section 408(*e*) to some extent by authorizing the President to extend credit terms of up to three years on equipment or materials *sold from stocks,* provided that this is determined to be in the best interests of the U.S. There would be, however, no

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[2] Not printed.

available Department of Defense funds for the financing of such three-year credit sales even if this moderate liberalization of 408(*e*) is enacted. The need for a source of funds would be considerably greater if the credit provisions of Section 107 were further liberalized to the extent necessary to permit full implementation of our policy objective.

9. One avenue through which funds for carrying such credit might be obtained is the Export-Import Bank. Although the Bank has not traditionally financed the sale of military equipment, this function would appear to be within the terms of its very broad charter. An important factor to be considered before helping to finance Latin American purchases is the general economic capacity of the country concerned to support the military forces being equipped.

10. The acceptance by the U.S. of local currency or barter arrangements for military equipment is contrary to the general foreign economic policies of the U.S. Nevertheless, it is believed that there may be cases where such arrangements are both feasible and desirable. For example, it may be possible for the U.S. to accept local currency in exchange for military equipment in cases in which the U.S. itself plans expenditures in a particular Latin American country. Also, it may be possible to arrange barter deals for materials which could be utilized in our strategic stockpiles. To achieve our objectives, it should be possible to carry out such transactions whenever they will not upset the normal flow of trade and investment. Rather than soft currency or barter deals, the better long-run solution to the problem of financing the sale of U.S. military equipment to Latin American countries would involve an expansion of trade and investments in Latin America on the part of the United States.

11. The problem of speeding up delivery of reimbursable aid to the Latin American countries is difficult because of their low position on the priority list for the delivery of U.S. military equipment. However, existing criteria permit exceptions to be made, and these might be used to meet particular Latin American requests where this can be done without a seriously adverse effect on higher priority claimants, especially where quantities desired are not great. Generally, speed of delivery can be regarded as merely another factor of U.S. competition with other suppliers, and desired progress toward the U.S. standardization objective in Latin America can be weighed against requirements of other areas.

RECOMMENDATION

12. It is recommended that paragraph 18(*e*) of NSC 144/1 be amended [3] along the following lines:

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[3] For documentation relating to the amendment of NSC 144/1, see pp. 65 ff.

"Seek the ultimate standardization along U.S. lines of the organization, training, doctrine, and equipment of Latin American armed forces, *facilitating the purchase of U.S. equipment by offering the countries of this area credit terms, including long-term payments, use of soft currency, barter arrangements, and more rapid delivery.*"

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103 XMB/7-654

The Assistant Secretary of Defense for International Security Affairs (Hensel) to the Managing Director of the Export-Import Bank (Edgerton)

CONFIDENTIAL WASHINGTON, July 6, 1954.

DEAR GENERAL EDGERTON: I am writing with reference to the question of the extent to which the Export-Import Bank would be willing and able to finance the sale on credit of military equipment to certain Latin American countries. This letter is intended to amplify our recent telephone discussion on the same subject.

It is the policy of the United States, reflected in NSC 144/1, to encourage Latin American countries to standardize their military equipment along the lines of United States equipment. This policy is essential to the development of an effective defense force within this hemisphere. Obviously, it would place great strains on our resources in time of war to supply Latin American countries with adequate military equipment for their defense if their existing equipment did not correlate with ours. The Defense Department is having considerable difficulty in achieving this standardization for reasons set out in a memorandum which is attached as an enclosure to this letter.[1] As you will see from the enclosure, our basic difficulty comes in meeting the competition being offered by European nations. One deterrent to meeting that competition is the generous credit terms which European countries are offering on the sale of military equipment to South American countries.

As you know, under existing law, no more than sixty days' credit can be offered by the United States on the sale of military equipment to our allies. We have proposed in the draft Mutual Security bill now before Congress that maximum credit be extended to three years in those cases where the President determines that it is in the best interests of the United States to extend credit of this duration.

Unfortunately, this legislative amelioration of present credit authority will do very little substantive good, for the simple reason that for practical purposes there are no available funds through which credit sales can be financed. The funds which will be authorized under the draft Mutual Security bill are limited, and are programmed very closely, both on the economic and on the military side. Section 505 of the draft bill, which was introduced against the wishes of the Administration, will require that 10% of all funds made available under the Mutual Security bill be used for loans rather than aid. This in and of itself will seriously dislocate the grant aid program schedules. Further invasions of these funds for the purpose of financing long-term credit sales will simply not be possible, and the possibility of obtaining additional funds under the aid bill are nil. Nor are military department appropriations available for this purpose, except perhaps in rare and limited circumstances.

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[1] Not printed.

The Department of Defense recognizes that the Export–Import Bank has not traditionally financed sales of military equipment. It would seem, however, that this would be within the purview of the Bank charter. We would hope that in light of the very considerable national interest which is involved, it would be possible for the Export–Import Bank to provide a certain amount of financing of military equipment sales, where the risks seem to the Bank to be reasonable under all the circumstances involved. I am informed by technical experts within the Department that $100 million would be the top figure which we would request the Bank to finance within the first year from the date on which an understanding between us in this regard might be reached. We could subsequently discuss what further financing could be carried out by the Bank on our behalf. During the year in which the Bank financed certain of our sales of military equipment, the Defense Department would seek to develop alternative sources of financing, for use in subsequent years.

For your information, this entire problem was discussed recently in the Planning Board of the National Security Council. While General Cutler took a personal interest in the matter, he did not believe that the sources through which financing might be obtained ought to be decided at the National Security Council level. Since I expect to be in Europe for the next several weeks, I have asked Mr. DuVal,[2] the Assistant General Counsel (International Matters), Department of Defense, to represent me in discussing the matter with you.

I am sending copies of this letter to the Departments of State and Treasury, to the Bureau of the Budget, and to the Foreign Operations Administration.[3]

Sincerely yours, H. STRUVE HENSEL

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[2] Clive L. DuVal, II.

[3] In a reply to the Department of Defense, dated July 28, 1954, concurred in by the Department of State, General Edgerton stated that under the Export–Import Bank Act of 1945 as amended it was not intended that the Bank's funds be used to finance military sales on credit terms. (103 XMB/7–2854) For text of the act (Public Law 173), approved July 31, 1945, see 59 Stat. 526.

A memorandum by Phil R. Atterberry of the Office of Financial and Development Policy, dated Aug. 17, 1954, reads in part as follows:

"While ARA desires to see the standardization of military equipment in the Latin American countries carried out, it believes that funds for financing the program should come from some source other than the Eximbank and that perhaps little, if any, attempt had been made to seek out other possible sources. The Department's position, as established by E and ARA, was made known informally to Eximbank on July 28, 1954." (103 XMB/7–654)

720.5 MSP/11-1554

The Deputy Under Secretary of State (*Murphy*) *to the Assistant Secretary of Defense for International Security Affairs* (*Hensel*)[1]

SECRET [WASHINGTON,] November 15, 1954.

DEAR MR. HENSEL: The Department of State understands that the grant military assistance program being conducted for certain Latin American countries under the provisions of the Mutual Security Act of 1954 is now being reappraised by the Department of Defense, with a view to determining what specific United States military objectives should be established for the program during Fiscal Year 1956 and what amount of funds would be required from the next Congress for the furtherance of such objectives. In connection with this reappraisal, the Department of State desires to raise the following questions.

(1) The Secretary of Defense, in a letter of October 31, 1951,[2] included Argentina among Latin American countries with which programs of United States grant military assistance should be initiated. In view of the then current political situation in Argentina, however, it was agreed between the State and Defense Departments that no attempt would be made at that time to negotiate with Argentina an agreement under which that country would utilize United States grant assistance to prepare units of its armed forces for hemisphere defense missions. The Department of State would appreciate being informed whether, from the United States military point of view, Argentine participation in this program of hemisphere defense continues to be desirable. If the Department of Defense continues to have an interest in an Argentine program, the Department of State requests information regarding the approximate size of the program proposed for Argentina, as compared with the size of programs now being conducted for Brazil, Uruguay and other Latin American countries.

(2) The Secretary of State was informed in a letter of October 27, 1954,[3] from the Deputy Assistant Secretary of Defense,[4] that there is an urgent United States military requirement for the installation of important United States military facilities on Brazilian territory. It is the view of this Department that the successful outcome of any approach to Brazil on the subject of United States base requirements will depend, in

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[1] Drafted by Mr. Spencer on Nov. 12; cleared with the Bureau of Inter-American Affairs, the Offices of Regional American Affairs, South American Affairs, and Middle American Affairs, and the Office of the Special Assistant to the Secretary for Mutual Security Affairs.

[2] Not printed. (720.5 MAP/10-3151) For the Acting Secretary of State's reply, dated Nov. 9, 1951, see *Foreign Relations*, 1951, vol. II, p. 1027.

[3] Not printed. (711.5632/10-2754)

[4] Vice Adm. Arthur C. Davis.

large part, on the extent to which the United States is prepared to comply with the standing Brazilian request for additional grant military assistance which was endorsed by United States military representatives in Brazil and submitted to the Defense Department for consideration early this year. The Department of State would therefore appreciate being informed whether the Defense Department is prepared to approve all or part of the Brazilian request for additional grant military assistance and to recommend that funds be requested from the next Congress for that purpose.

(3) The Department of State desires to know whether the Defense Department believes that it would be in the United States military interest to broaden Colombia's present mission in hemisphere defense, as set forth in the secret bilateral military plan with Colombia, and to provide Colombia with additional grant military assistance for that purpose. In view of the fact that Colombia was the only Latin American country which contributed troops for the United Nations action in Korea, the Department of State would support a recommendation by the Defense Department that the Congress be requested to appropriate funds necessary to increase the Colombian program, provided it is determined in the United States military interest to increase the program.

(4) United States military representatives in several Latin American countries now receiving grant military assistance, such as Cuba, Ecuador, and Peru, have recommended larger hemisphere defense roles and additional grant assistance for those countries. In most cases, the other Governments have themselves submitted requests for additional assistance. The Department of State assumes that the present Defense Department appraisal of the Latin American program will take these recommendations and requests into account, with a view to determining whether their approval, in whole or in part, would be in the United States military interest.

In view of the significant political implications of the decisions referred to above, it would be extremely helpful to the Department of State if the information requested above could be received at an early date.[5]

Sincerely yours, ROBERT MURPHY

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[5] No reply to this letter was received from the Department of Defense in 1954.

756B.5/3–855

Memorandum by the Commander in Chief, Caribbean (Harrison) to the Army Chief of Staff (Ridgway)[1]

TOP SECRET QUARRY HEIGHTS, CANAL ZONE, 19 November 1954.

Subject: Planning Talks between the United States and Netherlands Military Representatives

1. Reference Department of the Army message 221843Z [October 1954], DA 969808,[2] top secret.

2. As directed by referenced message, military discussions between the United States Commander in Chief, Caribbean, and the Commander in Chief, Netherlands Antilles, were conducted at Quarry Heights, Canal Zone, on 10–11 November 1954. Agreements were reached on the major points under discussion and are contained in the paper attached as Inclosure 1.*

3. Discussions were limited to defining tasks and formulating command relationships in the Caribbean. The agreement, as signed, differs only slightly from the guidance proposed by the Joint Chiefs of Staff. The reasons for the differences as they appear in the agreement are:

a. *Defense Tasks*

(1) It was mutually agreed that local defense and local combined defense were both defining the same task. Therefore, a single definition of the task has been written that includes both.

(2) The Netherlands delegation requested that the definition of local defense be expanded to include "local air and surface patrols." This was considered to be in consonance with United States concepts and has been included in the definition of local defense in the agreement.

(3) It was mutually agreed that the definition of protection of sea communications in the proposed guidance was too voluminous and included statements concerning command relationships. Therefore, the definition has been revised.

(4) It was mutually agreed that the definition of area defense included statements concerning command relationships. Therefore, the definition has been revised.

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[1] The Deputy Assistant Secretary of Defense for International Security Affairs, Vice Adm. A. C. Davis, transmitted this memorandum by the Commander in Chief, Caribbean, and its Appendix A to Secretary of State Dulles under cover of a letter dated Mar. 8, 1955. (756B.5/3–855) In the letter, Admiral Davis referred to Deputy Under Secretary of State Murphy's letter to Deputy Secretary of Defense Anderson, dated Oct. 12, 1954, not printed, regarding the Netherlands Embassy's *aide-mémoire* of Oct. 7, 1954 (see footnote 7, p. 149). He advised that the Department of Defense had reviewed the results of the discussions, found them consonant, in principle, with the guidance furnished the U.S. representative, and recommended that the Netherlands Government be informed of U.S. concurrence in the agreement. Admiral Davis also stated that the results of the planning talks were acceptable and, with the concurrence of the Netherlands Government, would be used as a basis for further detailed planning for the defense of the Caribbean area.

[2] Not found in Department of State files.

*Appendix hereto. [Footnote in the source text.]

b. *Command Relationships*

(1) The Netherlands delegation objected to the United States proposal that in time of war the Netherlands local defense commander might be under an intermediate commander designated by the United States Commander in Chief, Caribbean. They desired that the intermediate commander be specified as United States intermediate commander and for local prestige and political reasons he not be stationed in the island group of the Netherlands Antilles. The United States delegation concurred with the objections and agreed to specifying that the intermediate commander be a United States officer not based within the Netherlands Antilles. This change appears in the agreement.

(2) The Netherlands delegation proposed the establishment of a subarea around Aruba–Curacao or, in lieu of that, delegation of responsibility for the protection of the Lake Maracaibo–Aruba–Curacao tanker route to the Netherlands commander in the area. As neither of these were acceptable, a counterproposal was made to include in the agreement a statement recognizing the great importance of the lake-tanker route and that preference should be given by the Commander in Chief, United States Atlantic Fleet, to the employment of Netherlands escort units, if available, for its protection. This was agreed to by the Netherlands delegation, and the statement was included in the agreement.

4. For more detailed information regarding the conduct of the discussions, a brief summary of the major points discussed is attached as Inclosure 2.†

5. Discussions were conducted in a cordial and friendly atmosphere, and in all cases points of disagreement were resolved without unpleasantness. The Netherlands delegation appeared to be satisfied with the results of the discussion and expressed a desire that the detailed planning talks be initiated in the near future. The agreement, as signed, does not deviate from United States policy and concept for emergency operations, nor does the agreement differ in principle from the guidance provided by the Joint Chiefs of Staff.

W. K. HARRISON
Lieutenant General, USA
Commander in Chief

Appendix "A"

RESULTS OF PLANNING TALKS BETWEEN THE COMMANDER IN CHIEF, NETHERLANDS ANTILLES, AND THE UNITED STATES COMMANDER IN CHIEF, CARIBBEAN, 10–11 NOVEMBER 1954

TOP SECRET QUARRY HEIGHTS, CANAL ZONE, 11 November 1954.

In accordance with agreements of the respective governments, all discussions were limited to definition of defense tasks and formulation of command relationships in the Caribbean.

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†Not attached hereto. [Footnote in the source text.]

1. *Defense Tasks*

The defense tasks in the Caribbean area which are under consideration are defined as follows:

a. Local defense. All local measures taken to insure the security of the territory of the Netherlands Antilles and the important oil installations thereon, to include internal security, prevention of sabotage, and defense against hostile military action within the area, including local air and surface patrols and the protection of local inter-island traffic. In the event Netherlands and United States forces act in concert under a single commander, the term "combined local defense" will be used.

b. Protection of sea communications. All measures taken for the protection and control of shipping, including escort, convoy, and antisubmarine warfare operations.

c. Area defense. All measures taken to insure the over-all defense of the Caribbean area.

2. *Command Relationships*

It is agreed that command relationships shall be as follows:

a. Local defense.

(1) Under normal conditions of peace, local defense shall be the sole responsibility of the Commander in Chief, Netherlands Antilles, who will employ for this purpose Netherlands' forces exclusively.

(2) In war or emergency, local defense initially will be the responsibility of the Commander in Chief, Netherlands Antilles, who then shall be under the command of the United States Commander in Chief, Caribbean, or a United States subordinate commander not based within the Netherlands Antilles. Should the United States, pursuant to the request of the Netherland authorities, furnish United States forces for purposes of local defense in such numbers as to substantially change the relative strength of United States and Netherlands forces, the nationality of the combined local defense commander will be subject to review.

(3) The maintenance of internal law and order and control of the civilian population shall at all times be the sole responsibility of the Netherlands authorities, and any military forces employed for this purpose shall exclusively be Netherlands' forces.

b. Protection of sea communications. In the Caribbean area, protection of sea communications is the sole responsibility of the United States Commander in Chief, Atlantic. Netherlands forces whose primary assignment or capability is that of supporting the protection of shipping, may, at the discretion of the Netherlands authorities, be placed under the operational control of the United States Commander in Chief, Atlantic. The great importance of the Lake Maracaibo–Aruba–Curacao tanker route is recognized. Providing Netherlands Naval units are available in the Curacao area under emergency or war conditions, it is agreed that preference should be given by the Commander in Chief, United States Atlantic Fleet, to the employment of Netherlands escort units for the protection of shipping along this tanker route. In the event of global war or an emergency in which the security of the Caribbean area is threatened, the United States forces, combat or otherwise, which would be primarily concerned with the protection of sea communications, may be stationed in the Netherlands Antilles by consent of the Netherlands authorities. These forces shall normally remain under United States command. Under emergency conditions such forces may render service to the Commander in Chief, Netherlands Antilles, and may be temporarily placed under his operational control.

c. *Area defense.* The defense of the Caribbean area is the responsibility of the United States Commander in Chief, Caribbean. Netherlands forces whose primary assignment or capability is that of supporting area defense may, at the discretion of the Netherlands authorities, be placed under the operational control of the United States Commander in Chief, Caribbean. In the event of global war or an emergency in which the security of the Caribbean area is threatened, United States forces, combat or otherwise, which would be primarily concerned with the over-all defense of the Caribbean area, may be stationed in the Netherlands Antilles by consent of the Netherlands authorities. These forces shall normally remain under United States command. Under emergency conditions, such forces may render service to the Commander in Chief, Netherlands Antilles, and may be temporarily placed under his operational control.

3. *Recommendation*

It is recommended that the points of agreement contained herein be approved by the Netherlands and the United States authorities.

H. Bos
Commodore, RNN
Commander in Chief,
Netherlands Antilles

W. K. Harrison
Lieutenant General, USA
Commander in Chief,
Caribbean

S/S-NSC files, lot 63 D 351, NSC 5509 series

Report Prepared for the National Security Council [1]

[Extract] [2]

TOP SECRET
NSC 5509

[WASHINGTON,] March 2, 1955.

SECTION VIII—LATIN AMERICA

NSC POLICY STATEMENTS DEALING WITH MDAP FOR LATIN AMERICA

[Here follow several paragraphs or parts thereof quoted from NSC 5432/1. For text of NSC 5432/1, of September 3, 1954, see page 81.]

MILITARY OBJECTIVES

The general U.S. military objectives in the Latin American area are to insure the integrity of Latin America and the availability of raw materials therefrom with the minimum of U.S. forces.

MDAP OBJECTIVES*

Within the framework of the general U.S. military objectives, to provide assistance in the form of military equipment and training essential for those forces committed to the Inter-American Defense Plan.

VALUE OF MDA PROGRAMS AND PERFORMANCE

The revalidated FY 1950–54 program provides for $154.8 million of end-items and spares. Of this amount $122.5 million had been delivered by 31 December 1954, with $19.4 million delivered in the period July through December 1954. This does not include the value of packing, crating, handling and transportation which are reported only on an area level but approximate 8 to 10 percent of the value of total deliveries.

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[1] The report, titled "Status of United States Programs for National Security as of December 31, 1954," consists of a series of eight parts and an annex, separately dated and prepared by the following agencies: Department of Defense (Part 1—The Military Program), Department of Defense and the Foreign Operations Administration (Part 2—The Mutual Security Program), Atomic Energy Commission (Part 3—The Atomic Energy Program), Office of Defense Mobilization (Part 4—The Mobilization Program), Federal Civil Defense Administration (Part 5—The Civil Defense Program), United States Information Agency (Part 6—The USIA Program), Central Intelligence Agency (Part 7—The Foreign Intelligence Program and Related Activities), Interdepartmental Intelligence Conference and the Interdepartmental Committee on Internal Security (Part 8—The Internal Security Program), and Operations Coordinating Board (Annex A—Activities of the Operations Coordinating Board). The over-all report is undated; it was distributed to the members of the NSC on Mar. 2, 1955.

[2] This extract is from Part 2, titled "Department of Defense Report to National Security Council on Status of Military Assistance Programs as of 31 December 1954," dated Mar. 1, 1955.

*See "objectives" page 5. [Footnote in the source text.]

The approved FY 1950–55 training program provides a total of $7.5 million for training activities. As of 31 December 1954, $1.7 million had been utilized for formal and other training.

The following Latin American countries are eligible to participate in the reimbursable assistance program:

Argentina
Bolivia
Brazil
Chile
Colombia
Costa Rica
Cuba
Dominican Republic
Ecuador
El Salvador
Guatemala
Haiti
Honduras
Mexico
Nicaragua
Panama
Paraguay
Peru
Uruguay
Venezuela

As of 31 December 1954 they had purchased $45.4 million of end-items and spares of which $39.7 million had been delivered.

EFFECT OF MDAP ON AREA

The United States is actively participating militarily with the Latin American countries through the Inter-American Defense Board. The diplomatic military negotiations leading to Latin American countries participating in MDAP were conducted through that Board.

The Latin American countries receiving aid are expected to assume a part of the burden of hemispheric defense, not only in the form of preservation of internal security, but also in the defense of their own territories and by participation in combined operations, in defense of the Hemisphere or elsewhere.

The purpose of the Mutual Defense Assistance Program to Latin America is to provide equipment and training required by selected units of certain Latin American Republics to enable them to discharge specific military roles and missions assumed by such countries. MDAP is directed in part to counter trends toward establishment of European Military Missions or other groups with similar functions in Latin America. The United States now has Grant Military Assistance Programs in force with the following Latin American countries: Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Peru, Honduras, Nicaragua and Uruguay.

Prior to the inception of the program the armed forces of the American Republics were hampered by lack of adequate facilities and obsolete military equipment. The Army forces supported in each country are extremely small, consisting generally of one battalion per country. In the Navy, the program is largely restricted to placing modern equipment on a small number of existing vessels. In the Air Force, the grant aid program to date is entirely for propeller-driven aircraft suitable for patrol purposes. The several countries have demonstrated their ability to utilize and maintain the equipment delivered to them. The program is helping to standardize, along U.S. lines, not only the equipment but also the organization, training and doctrine in selected units.

JCS COMMENTS FOR NSC REPORT—LATIN AMERICA

"The Joint Chiefs of Staff have noted a trend toward increased purchases of European military equipment by Latin American countries. They consider the introduction of large quantities of non-U.S. military equipment will eventually defeat the important U.S. objectives of standardization for Latin American armed forces and of countering trends toward establishment of European military missions in Latin America. To check these developments, it will be necessary to improve the competitive position of U.S. equipment. It has been recommended that, if necessary, new legislation be sought to insure that procedures and methods are adopted that will enhance the U.S. competitive position."

JCS FORCE GOALS AND LEVELS

Forces of Latin American Nations In Being as Compared With Force Goals [3]

Ground Forces Table

Country	Forces in Being 31 Dec 54	Planned Force Levels 31 Dec 54 †	Forces Supported Under FY 1950–54 MDAP ‡
Brazil	1 RCT with SV Spt 1 AA Gun Bn (90 MM)	1 RCT w/Sv Spt 4 AA Gun Bns (90 MM)	1 RCT w/Sv Spt 4 AA Gun Bns (90 MM)
Colombia	1 AA AW Bn (40 MM) 1 Inf Bn	1 AA AW Bn (40 MM) 1 Inf Bn	1 AA AW Bn (40 MM) 1 Inf Bn
Chile	1 Recon Sqn, mechanized	1 Recon Sqn, mechanized	1 Recon Sqn, mechanized
Cuba			
Peru	1 AA (AW) Bn (40 MM)	1 AA (AW) Bn (40 MM)	1 AA (AW) Bn (40 MM)
Nicaragua	1 Inf Bn	1 Inf Bn	1 Inf Bn
Guatemala			
Honduras	1 Inf Bn	1 Inf Bn	1 Inf Bn
Ecuador	1 AA (AW) Bn	1 AA (AW) Bn	1 AA (AW) Bn
Uruguay	None	1 AA (AW) Bn	1 AA (AW) Bn

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[3] A note on the source text indicates that the information in the following tables was based on a JCS memorandum, dated Feb. 18, 1955, no copy of which was found in Department of State files.

† FY 1954 basis for Program Refinement. [This footnote and subsequent footnotes are in the source text.]

‡ Army FY 1950–54 Combined Program. The Uruguayan Government has failed to furnish administrative funds for MAAG personnel. Present plans are to attach personnel to the AF Mission to implement the Army Program.

JCS FORCE GOALS AND LEVELS

Naval Forces Table (Combined table for Argentina, Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Haiti, Mexico, Peru, Uruguay and Venezuela)

Type of Unit	Forces in Being 31 Dec 54	Planned Force Levels 31 Dec 54 §	Forces Supported Under FY 1950-54 MDAP ‖
Battleships (OBB)	3		
Cruisers (CA/CL)	9	4	4
Destroyers (DD/ODD)	34	19	19
Escort Vessels (DE, PF, PG)	44	27	27
Patrol Craft (PCE, PC, PGM, SC)	69	16	16
Minecraft	16	1	1
Submarines (SS)	2	2	2
OSS for ASW training	17	4	4
Landing Ships	37		
PT, PR, PY	35		
Observation Sqn	1		
Patrol Sqn	1		
Attack Sqn	1		
Transport Sqn	2		
Recon Sqn (Composite)	3	2	2

Note: There are no MDA Programs in effect at the present time in Argentina, Mexico and Venezuela.

JCS FORCE GOALS AND LEVELS

Air Forces Table (Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Peru and Uruguay)

Type of Unit	Forces in Being 31 Dec 54 ¶	Planned Force Levels 31 Dec 54 **	Forces Supported Under FY 1950-54 MDAP ††
Fighter-Bomber	200	202	200
Light Bomber	79	84	80
Reconnaissance	5	4	5
Transport	7	7	10
Total	291	297	295

§ FY 1954 basis for Program Refinement.

‖ Navy FY 1950-54 Combined Program.

¶ US type aircraft only.

** PE-56-1M.

†† SS-A-13.

UNITED STATES ECONOMIC AND TECHNICAL ASSISTANCE AND RELATED POLICY TOWARD THE OTHER AMERICAN REPUBLICS AS A GROUP [1]

420.119/4-1652 : Circular airgram

The Secretary of State to Certain Diplomatic Offices [2]

SECRET WASHINGTON, April 16, 1952.

THE EXPORT CONTROL OF CERTAIN STRATEGIC COMMODITIES [3]

The Department desires that negotiations be started immediately with the government to which you are accredited for the adoption and implementation of the "Import Certificate and Delivery Verification System" to a selected list of commodities that are, or may be, exported, re-exported or transshipped to a selected list of countries from that country.

The governments of Norway, Denmark, the Netherlands, Belgium, Luxembourg, Germany, France, Italy, the United Kingdom, Canada, and the United States have extended the Import Certificate and Delivery Verification System to cover exports, re-exports and transshipments from Latin America to these countries of copper, tungsten, lead, nickel, bismuth, molybdenum, vanadium, and mica.

The purpose of extending the ICDV system to the Latin American countries is to assist them in controlling unauthorized diversions of strategic exports to the Soviet Bloc. The system is designed to assure that commodities approved for export to a country are received by that country. The ICDV operates generally as follows:

1. The exporting government requires, prior to releasing the export, that the exporter present an "Import Certificate" furnished by the consignee in the importing country. This certificate is issued by the government of the importing country to the importer and states that the goods concerned are for importation or for re-export or for transshipment only with the approval of the importing country.

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1038 ff.

[2] Drafted by Thomas S. Strong of the Office of Economic Defense and Trade Policy; cleared with the Offices of Regional American Affairs and European Regional Affairs. Sent to Asunción, Bogotá, Buenos Aires, Caracas, Ciudad Trujillo, Habana, Lima, Managua, Mexico City, Montevideo, Panamá, Port-au-Prince, Quito, Rio de Janeiro, Santiago, San José, San Salvador, Tegucigalpa, and Guatemala City; sent to La Paz for information only.

[3] For documentation on this subject, see volume I.

2. The Department desires to emphasize the importance of the exporting country requiring "Delivery Verification" for all exports that are covered by an "Import Certificate" since the "Verification" is assurance that the export has been received by the importing country. This verification, which states that the goods have been brought under the control of the importing country, is issued to the importer by Customs officials at the time the goods are landed and must be transmitted to the exporting government. If the export is not received within a stipulated period of time, an investigation is made by the importing country to determine the reason for the delay. Penalties are imposed against those who are found guilty of violating the terms of the certificate.

The purpose of the system is thus not to prevent legitimate transshipments and re-exports but rather to assure that these transactions take place only with the approval of the consignee country.

For the Embassy's information, the COCOM [4] countries (previously listed) do not propose, in the immediate future at least, to require ICDV's for strategic commodities that they approve for export to Latin American countries. (COCOM is an informal secret organization and its existence should not be divulged to the Foreign Office.)

The Department would appreciate being informed promptly of the local government's reaction to this proposal.[5]

ACHESON

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[4] Reference is to the Coordinating Committee of the Paris Consultative Group (COCOM), an informal international organization established in 1950 by a group of non-Communist nations for the purpose of controlling the export of strategic commodities to Communist countries; the senior body within the committee was known as the Consultative Group (CG). For documentation concerning the formation of COCOM, see *Foreign Relations*, 1950, vol. IV, pp. 67 ff.

[5] The Department's circular airgram, dated May 9, 1952, drafted by Mr. Strong and cleared with the Bureau of Inter-American Affairs, reads in part as follows: "It was not the Department's intention in its Circular Airgram of April 16 that the Embassy should attempt to negotiate a formal agreement with the local government for the adoption of the limited Import Certificate and Delivery Verification system. The intention was that the Embassy should inform the local government that the countries listed are prepared to issue ICDV's for their imports of the commodities listed. You should also strongly urge that the local government take advantage of the system." (420.119/5–952) It was sent to Asunción, Bogotá, Caracas, Guatemala City, Habana, Managua, Mexico City, Montevideo, Panamá, Port-au-Prince, Rio de Janeiro, Santiago, and Tegucigalpa; it was sent to La Paz for information only.

820.00 TA/3–1353

Memorandum by Norman M. Pearson of the Bureau of Inter-American Affairs to the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] March 13, 1953.

Subject: A More Positive Policy of Assistance

Over the past two years there has been a rather active controversy between ARA and the IIAA regarding the extent to which technical assistance should be "promoted" in Latin America. The Institute, perhaps without saying so, believes that we should not base technical assistance solely on self-generated requests for projects. They think we should go further and (1) develop plans for each country showing the fields in which they need assistance and (2) encourage countries to request needed projects even if they don't take the initiative. ARA, on the other hand, has been inclined, though not consistently, to hold that we should consider projects only on the basis of bona fide self-generated government requests, and that we should avoid promoting or selling projects even if they are badly needed. The moderately expanding program thus far evolved tends to be a compromise between these two positions since the former leads to an expanding program and the other to a more restricted activity. (I hold no brief whatever for a number of ill-advised and clumsy actions on projects and personnel which the Institute has taken and to which ARA has objected. My comments are directed to general attitude or policy.)

One striking departure from the ARA policy has been the Joint Commission approach to Brazil. It will be alleged that the Brazilians "desired" the aid, but the actual "projects" put forth for loan purposes are the product of *joint* efforts by Brazilian and American technical experts. All of the Latin American countries have the general desires for economic development and technical assistance, but they frequently need help in crystallizing these desires into specific workable projects. If we look back to the state of Brazilian frustrations before the Abbink Mission [1] and the period after that but before the Joint Comission,[2] we have a better perspective for assessing the importance of our very intimate participation in the technical development of loan projects.

If we maintain, as we do, that Latin America is vital to us in the free world struggle against the Soviet bloc, we must also recognize that that vitality of Latin America is proportionate to its economic and political strength. In cooperation with them, we must do everything in our power to help them to become strong. Since the world struggle is tremendously urgent, we cannot truly afford an approach which relies completely upon the initiative of our Latin American friends. We are the leaders of the free world and must carry leadership responsibilities. We have abundant evidence that the Latin Americans do not realize the urgency of the world struggle (many Americans also do not), and their "relaxed" attitude in this respect is understandable. Fortunately, they have a driving urge toward economic development, quite apart from the world struggle, with which we can cooperate to achieve our common ends.

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[1] Reference is to the mission of John Abbink, who was appointed Chairman of the United States Section and Cochairman of the Joint Brazil-United States Technical Commission by President Truman in July 1948; for documentation on the subject, see *Foreign Relations*, 1948, vol. IX, pp. 364-375.

[2] Apparent reference to the Joint Brazil-United States Economic Development Commission, which initiated its activities on July 19, 1951. For documentation concerning the work of the commission, see pp. 570 ff.

The suggestion I make below is more one of method and approach than substance. Yet, I think it makes considerable difference in the achievement of our objectives and the time required to achieve them. Other forces are working against us in Latin America and time may not be in our favor.

Recommendation:

1. I would urge, therefore, that, in the interest of our own basic objective of a strong free world, we look beyond the requests of Latin American governments to us for technical or other assistance and judiciously encourage and even promote those projects which will strengthen them.
2. In stating this recommendation I hasten to add that

(*a*) obviously we should not force aid upon them,
(*b*) all aid should be applied in accordance with the many criteria which will ensure lasting success.

Secretary's Staff Meetings, lot 63 D 75

Minutes of the Secretary of State's Staff Meeting, Held at the Department of State, 9:30 a.m., September 18, 1952 [1]

SECRET
SM N-68

[Here follow a list of those present (23) and discussion of matters relating to Korea, Iran, and Brazil.]

Investment Guarantees [2] *in Latin America*

7. Mr. Miller reported that he has had a long, and apparently losing, battle on the question of investment guarantees to Latin America. He pointed out that he is against such guarantees in Latin America, because it would give an opportunity for the Latin American governments to become involved in private investments. In addition, we

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[1] The Secretary's staff meetings, held twice a week during the years 1952–1960, were attended by the Under Secretary of State, the Assistant Secretary of State, certain members of the Executive Secretariat, and certain office directors. A broad range of policy matters was discussed at these meetings, and the Secretary normally presided.

[2] Under the investment guaranty program, initiated in 1948, the U.S. Government provided, for a fee, insurance protection for American investors abroad against the risks of loss through confiscation or expropriation and currency inconvertibility. For documentation concerning the initiation of the program, see *Foreign Relations*, 1948, vol. I, Part 2, pp. 952 ff. For additional information, see *Staff Papers Presented to the Commission on Foreign Economic Policy* (Washington, 1954), pp. 126–134.

would play along with Communist propaganda by affirming their claim that the U.S. Government is sponsoring private companies in Latin America. In addition, Mr. Miller pointed out that the timing for moving ahead on investments guarantees, if we must do this, is unfortunate. He said, however, that he is about to give up on this issue because others in the Department and in the Executive Branch appear to be against his position. The present issue with respect to Brazil is the convertibility of Brazilian currency. Mr. Miller felt that we should hold up the granting of investment guarantees until after the Brazilian congress acts on convertibility of its currency. We could apply the guarantees in Peru, but if this were done it would cause confusion within Brazil prior to action by the Brazilian congress. Mr. Miller urged that we ask Lafer what effect the granting of investment guarantees would have on Brazil with respect to the planned program with the congress.

8. Mr. Bruce explained that he is not an advocate of this program, but Mr. Ty Wood [3] of MSA has felt very strongly that the problem should be settled by going ahead with what he interprets as a mandate from the Congress. Our next step in working with MSA is to consider the possibility of moving ahead on a country-by-country basis within Latin America. Mr. Miller pointed out that this could be done, but he felt that it was unwise in this case because of the present Brazilian situation. Mr. Bruce emphasized that MSA is pressuring the State Department to comply with the mandate of Congress on establishment of such a guarantees program in Latin America.

9. Mr. Tate [4] explained that arguments for and against an investment guarantees program in Latin America were given before the last session of Congress. Congress approved this program, and members of the Congress have exercised considerable pressure for moving ahead on such a program. Mr. Tate felt that there were no legal difficulties on moving ahead on a country-by-country basis. Mr. Miller pointed out that the problem is not a legal one, but mainly one of Congressional relations. Mr. Thorp stated that the guarantees program applies only to new investments and thus would proceed slowly. Many in the Congress feel that such a program might ease the burden of public assistance to various areas of the world. Mr. Thorp felt that the Administration is in a spot not to comply, because we advocated such a program about two years ago but it was not granted by the Congress. In addition, we now operate such a program in other parts of the world, and it would appear inconsistent if such a program is not applied in Latin America.

10. Mr. Miller again explained his objections to the program itself and especially to the timing as it related to Brazil. He indicated, however, that he was prepared to move ahead on a country-by-country basis,

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[3] C. Tyler Wood, Deputy Associate Director, Mutual Security Administration.
[4] Jack B. Tate, Deputy Legal Adviser.

but he would urge that we talk to Lafer before this is done. Mr. Bruce stated that he would tell Mr. Wood that we would be unable to give him our view on this matter until next week.[5]

[Here follows discussion of matters relating to Lebanon and publications by former government employees.]

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[5] No record of the Department's view concerning extension of the investment guaranty program to Latin America as conveyed to Mr. Wood was found in the Department of State files. For documentation relating to the investment guaranty program, see volume I.

811.054/6-153

Report Prepared by the National Security Council Planning Board [1]

SECRET [WASHINGTON,] June 1, 1953.

EFFECT ON NATIONAL SECURITY INTERESTS IN LATIN AMERICA OF POSSIBLE ANTI-TRUST PROCEEDINGS

PROBLEM

1. To determine the national security interest involved in the proposed anti-trust action against the United Fruit Company, with a view to recommending the action to be taken.

ANALYSIS

2. The Department of Justice has completed an investigation disclosing evidence of violations of United States anti-trust laws by the United Fruit Company, which is engaged in widespread business activities in Central America and parts of South America. In the absence of foreign policy and national security considerations, the Department of Justice would proceed to file a civil complaint charging the Company with such violations and asking broad remedies, including divestiture by the Company of certain of its overseas assets.

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[1] Transmitted to the National Security Council under cover of a memorandum by Mr. Lay, dated June 1, 1953, not printed.

This report was based on a Department of State draft, dated May 29, 1953, not printed. The NSC Planning Board reviewed the Department's draft at its meeting on May 29, where representatives from the Department of Justice participated in the discussion, and referred it to the NSC Staff Assistants for revision. At its meeting of June 1, the Planning Board considered the subsequent revised draft, dated June 1, and approved its submission, as amended, to the NSC for consideration. Records of the NSC Planning Board meetings are contained in the S/P-NSC files, lot 62 D 1. For documentation concerning the establishment of the NSC Planning Board, see volume II.

In a memorandum to Mr. Cabot, dated June 1, 1953, Raymond G. Leddy stated in part that the final version of the report on the anti-trust suit "is fully consonant with our own estimate of the effects of the suit, and it also adopts ARA's recommendation that filing of the suit be postponed in order that the Department of Justice negotiate with the United Fruit Company toward the elimination of any unlawful practices charged against it." (811.054/6-153)

3. The Department of Justice, as long ago as 1908, commenced an investigation of the activities of the United Fruit Company in relation to the anti-trust laws. In 1913, a staff recommendation in the Anti-Trust Division called for civil and criminal action against the United Fruit Company; however, no action was taken. Again in 1937, a staff recommendation called for the institution of proceedings against the Company, but no action was taken. In 1946, following a Federal Trade Commission investigation, the Justice Department investigation was renewed, but action was again postponed. The present investigation, renewed in 1951, has now been completed, and a civil suit against the United Fruit Company is ready to be instituted. The Justice Department states that the violations of law by the Company are pervasive, including price-fixing, allocation of domestic markets, dumping in order to decrease prices to injure competitors, and reservation of unused shipping space by the Company in order that competitors may not transport their bananas. The remedies sought would be broad, including divestiture by the Company of certain of its assets abroad.

4. The institution of anti-trust action against the United Fruit Company at this time, regardless of the merits of the action under U.S. law, would adversely affect our national security interests in the following respects:

a. It would tend substantially to consolidate the position of the Communist-dominated Arbenz government of Guatemala, a major center of anti-U.S. influence in Latin America. The Arbenz government within the past year has seized three quarters of the Company's land under the guise of agrarian reform, and has made its struggle against the Company the central point in its appeal to the people. For the U.S. Government to brand the Company as an offender against U.S. law would, under these circumstances, appear to justify Arbenz' position completely, and would thus greatly strengthen his hand.

b. Elsewhere in Central America, institution of the action would greatly stimulate movements to nationalize the properties of the Company. Such nationalization is now threatened to some degree in all countries in which the Company operates, particularly in Costa Rica through the possible accession to the presidency of Jose Figueres, who is not a Communist but is openly speaking of nationalization. To the extent such nationalization is achieved, it would not only affect a private company, but would have direct and far-reaching repercussions on our strategic position. Among these must be counted:

> (1) Loss of United States control of the largest communications and transport network in the area, represented by the United Fruit Company's freight and passenger ships, ownership and management of ports, docking facilities and warehouses; its 43 percent participation in the International Railways of Central America, the only railroad system in these countries; and its direct ownership of the Tropical Radio Company, the only commercial wireless communication service. These essential facilities, in friendly American hands, constitute a strategic interest in time of war which, if lost to

the United States through withdrawal of this American enterprise, could not be counted on with the same security as in the direct control of American citizens.

(2) Jeopardy to that part of our supply of abaca (a strategic cordage commonly known as Manila hemp) now grown by the United Fruit Company under contract with the Reconstruction Finance Corporation. Loss of Far Eastern sources of supply would make the United States almost completely dependent on Central America as a source of supply to supplement our strategic stockpile. The United Fruit Company is the only concern which has in existence the organization and facilities for supplying our needs.

(3) . . . .

c. Institution of the action would provide a propaganda weapon generally to Communists and leftists in Central America. Moreover, to the degree that it would promote governmental seizure, it would assure the placement of extremists in charge of the former Company properties, and would thus increase the power of elements opposed to the United States in Central America, possibly including Panama, and make uncertain the cooperation of the governments of the area with the United States. Finally, it might contribute to the spread of the Guatemalan example and to the eventual overthrow of four Central American governments now friendly to the United States, which would transform our present security in the Caribbean into a dangerous threat at our backdoor.

d. In Latin America generally, nationalization of the United Fruit Company properties would further stimulate the already serious movement for similar action against the U.S. companies, which have properties with an established value of $5 billion in Latin America, including strategic industries in the fields of mining and petroleum. This effect would be increased to the extent that the Guatemalan and other governments were able to avoid the payment of just compensation to the Company. Action by one branch of the U.S. Government against one private company, as a monopoly, would make most difficult the successful defense of that company's legitimate interests by the Department of State, and weaken very seriously the ability of that Department to oppose the tide of nationalization of other American properties in the entire area and elsewhere. Increased nationalization of U.S. properties would not only deprive the United States and U.S. nationals of a degree of control of strategic resources, but would be contrary to the policy decared in NSC 144,[2] of encouraging Latin American countries to take measures to attract private investment.

CONCLUSION

5. In view of these circumstances, the filing of an anti-trust suit at this time would affect adversely the national security, particularly the conduct of the foreign relations of the United States.

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[2] NSC 144, titled "United States Objectives and Courses of Action With Respect to Latin America," dated Mar. 4, 1953, is not printed, but see footnote 2, p. 2.

ALTERNATIVE COURSES OF ACTION

6. Two courses of action which are feasible in view of these circumstances are:

a. Postponement of the anti-trust suit until the political and strategic situation in the central and northern South American area is improved to a point where the bringing of an action would not jeopardize the broader national interest.

b. Postponement of the suit for the present, because of the political and strategic situation in the area, with a review by the National Security Council after six months. The Department of Justice during that period will endeavor to negotiate with the Company for elimination of practices deemed to be inconsistent with the anti-trust laws.

7. Because following Course *a.* would probably mean an indefinite postponement of the suit, Course *b.* is preferable.

RECOMMENDATIONS

8. The proposed anti-trust proceedings against the United Fruit Company should be postponed without prejudice for the present, and the situation should be reviewed by the National Security Council within six months.

9. During this six-months postponement, the Department of Justice should negotiate with the Company for elimination of practices deemed to be inconsistent with U.S. anti-trust laws.

Eisenhower Library, papers as President, Whitman file, NSC records

Memorandum of Discussion at the 148th Meeting of the National Security Council on Thursday, June 4, 1953 [1]

TOP SECRET EYES ONLY

The following were present at the 148th meeting of the Council: The President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Deputy Secretary of Defense; the Director for Mutual Security. Also present were the Secretary of the Treasury; the Attorney General (for Items 2 and 3); the Director of Defense Mobilization; the Director, Bureau of the Budget; the Acting Chairman, Atomic Energy Commission (for Item 2); the Acting Secretary of Commerce (for Items 4 and 5); the Secretary of the Army (for Item 2); the Secretary of the Navy (for Item 2); H. Lee White for the Secretary of the Air Force (for Item 2); Lt. Gen. Idwal H. Edwards, Chairman, Special Evaluation Subcommittee of the NSC (for Item 2); Walter S. Delany, Office of the Director for Mutual Security (for

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[1] This memorandum was drawn up by NSC Executive Secretary Lay and Deputy Executive Secretary Gleason on June 5.

Item 4); Kenneth R. Hansen, Office of the Director for Mutual Security (for Item 4); General Collins for the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; the Deputy Director of Central Intelligence (for Item 2); Lt. Gen. Harold R. Bull, Central Intelligence Agency (for Item 2); Robert Cutler, Special Assistant to the President; Lewis L. Strauss, Special Assistant to the President; C. D. Jackson, Special Assistant to the President; the NSC Representative on Internal Security (for Item 2); Marshall Chadwell, Central Intelligence Agency (for Item 2); . . ., Central Intelligence Agency (for Item 2); Herbert Blackman, Department of Commerce (for Items 4 and 5); the Military Liaison Officer; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the chief points taken.

[Here follows discussion of matters related to Korea and the atomic energy capabilities of the USSR.]

3. *Effect on national security interests in Latin America of possible anti-trust proceedings* (Memo for NSC from Executive Secretary, same subject, dated June 1, 1953[2])

As the Council turned to consideration of the reference memorandum, Mr. Cutler explained that, owing to the connections between the Old Colony Trust Company, of which he had formerly been President, and the United Fruit Company, he thought it inappropriate for him to be present at the Council's discussion of this item. He accordingly left the Cabinet Room

Thereupon the Attorney General[3] reemphasized the dilemma confronting the Department of Justice as set forth in the reference memorandum.

After this brief statement the President noted the recommendations of the report, but suggested that a year be allowed the Justice Department for its efforts to convince the United Fruit Company of the desirability of abandoning practices which were inconsistent with the anti-trust laws. Not only would this longer time be useful in negotiating with the Fruit Company; it would give us an opportunity to strengthen our position in Central America in the event that the negotiations failed and it proved necessary to proceed with a civil suit.

The Attorney General replied that the Justice Department had selected the shorter period in order to instill a greater sense of urgency in its negotiations with the Fruit Company.

The President observed that he saw no reason to tell the United Fruit Company of the interval of time which was to be agreed upon.

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[2] This memorandum transmitted the NSC Planning Board report, *supra*.

[3] Herbert Brownell, Jr.

Secretary Dulles expressed his appreciation of the interest and concern of the Department of Justice in the international implications of this action, and reiterated the view expressed earlier, with respect to the oil cartel, that we must review the whole legal position of United States companies operating abroad with respect to the anti-trust laws.

The Attorney General reminded Secretary Dulles that the Council had already directed the Department of Justice to review this problem.

Secretary Dulles said that he recalled this, but felt that he must again emphasize the terrible repercussions which suits like this [4] had on our foreign policy objectives.

The President inquired whether it would not be possible to have the Anti-trust Division and the Department of State review this problem jointly in order to come up with a sensible proposal for revising the anti-trust laws as they related to cases such as this.

The Attorney General again pointed out that the Department of Justice was well along in its report on the problem, and expected to be able to present its results to the Council by the end of the month.

The National Security Council:

Agreed that, in view of the adverse effects on national security interests in Latin America of the proposed anti-trust proceedings, as stated in the enclosure to the reference memorandum:

a. The proposed anti-trust proceedings should be postponed, without prejudice to the Government, for one year.

b. The Attorney General should be directed to negotiate with the company, as a matter of urgency, for the elimination of practices deemed to be inconsistent with U.S. anti-trust laws, reporting back to the National Security Council on the results of these negotiations.

Note: The above action,[5] as approved by the President, subsequently transmitted to the Attorney General for implementation.

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[4] Apparent reference to the Department of Justice action involving investigation of possible violations of anti-trust statutes by five major American oil companies operating in the Middle East; for documentation, see volume I.

[5] NSC Action No. 805.

Editorial Note

Between June 23 and July 29, 1953, Dr. Milton S. Eisenhower, who was appointed Personal Representative of President Eisenhower with the rank of Special Ambassador, visited the ten countries of South America (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela) to conduct a factfinding mission. The purpose of the trip was in part to obtain current information about the economic and social situation in the South American countries. Extensive documentation relating to the mission is contained in Department of State files 120.220 and 611.20. Additional information may be found in Dr. Eisenhower's book, *The Wine is Bitter: The United States and Latin America* (New York, 1963), pages 187–201, and in President Eisenhower's memoirs, *Mandate for Change* (New York, 1963), pages 140–141.

Dr. Eisenhower's report on the results of his mission, submitted to the President under date of November 18, 1953, was published as *United States-Latin American Relations: Report to the President* (Department of State Publication 5290, Washington, 1953); it is also printed in the Department of State *Bulletin,* November 23, 1953, pages 695–717.

At the 174th meeting of the National Security Council, held on December 10, 1953, President Eisenhower stated that he had communicated with the appropriate agencies of the Executive branch respecting the implementation of the recommendations contained in Dr. Eisenhower's report. (Memorandum of discussion at the 174th meeting of the NSC, dated December 11, 1953, Eisenhower Library, papers as President, Whitman file, NSC records)

On January 11, 1954, Dr. Eisenhower submitted to the President a supplement to his report which contained an analysis of certain specific economic problems of the respective countries he had visited and related recommendations. (120.220/1–1354) In a memorandum to Secretary Dulles, dated January 12, 1954, President Eisenhower requested the Secretary to take the lead in having the supplementary report studied by the Departments of Defense and Treasury, the Export-Import Bank, the International Bank for Reconstruction and Development, and the Office of Defense Mobilization. (120.220/1–1254) Regarding the implementation of the report, see Mr. Woodward's memorandum, March 2, 1954, page 217. Portions of the supplementary report and agency responses thereto were incorporated into Mr. Bennett's memorandum, August 20, 1954, page 229.

720.5 MSP/10–253

Memorandum of Conversation, by the Director of the Office of Regional American Affairs (Cale)

CONFIDENTIAL [WASHINGTON,] October 2, 1953.

Subject: Foreign Aid for Latin America for Fiscal Year 1955

Participants: The Secretary
S/MSA—Mr. Nolting
ARA—Mr. Cabot
E—Mr. Kalijarvi
AR—Mr. Cale

Mr. Cabot expressed the view that we should not extend grant aid to Latin America except under very exceptional circumstances. He said that he considered that assuring an adequate flow of governmental funds into sound economic development projects in Latin America to be perhaps our biggest problem in Latin America at the present time.

The Secretary indicated that a memorandum [1] of his recent conversation with Secretary of the Treasury Humphrey on the future role of the Export-Import Bank is on the way to ARA and E. He said that in this conversation Mr. Humphrey took the line that if the Latin American countries behaved properly they could obtain adequate amounts of capital from private sources for their development. Mr. Dulles said that he had dissented from this view and had pointed out to Secretary Humphrey that in the absence of adequate assistance from us the Latin American countries might well go Communist. Secretary Humphrey took the view, however, that the Export-Import Bank should limit itself to making relatively short-term loans to be used for financing United States foreign trade.

The Secretary also indicated that in his conversation with Mr. Humphrey consideration was given to the possibility of asking Congressional approval for establishing a lending institution to make "soft" loans.[2] Mr. Cabot pointed out that there have been very few defaults on loans made by the Export-Import Bank and that the record of the Bank, as a lending institution, is therefore good. He referred in this connection to a memorandum which he recently addressed to the Secretary on this subject. (Copy attached) [3]

Mr. Cabot also said that he believes that it would be possible for the Export-Import Bank to expand its operations in Latin America without necessarily having an adverse effect on the national debt. He mentioned in this connection the possibility that the Export-Import Bank might guarantee loans, might rediscount its paper or that the Export-Import Bank might utilize various means of obtaining private funds as a basis for additional loans. He said that in the Latin American area he would recommend "soft" loans only as a last resort.

Mr. Kalijarvi inquired whether the suggestion was that the institution to make "soft" loans would be a substitute for the Export-Import Bank or a supplement to the Export-Import Bank. The Secretary said the "soft" loan institution would be in addition to the Export-Import Bank, the Export-Import Bank being limited to short-term loans (5 years or under) which would be used for financing United States exports. The Secretary went on to point out that one of the problems in the loan field is the fact that while a project may be sound from the domestic viewpoint of the would-be borrowing country, the country might not be able to earn the dollar exchange required for servicing the loan.

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[1] Not found in Department of State files.

[2] Loans repayable in local currency rather than in dollars.

[3] Reference is to Mr. Cabot's memorandum, dated Sept. 29, 1953, not printed, in which he discussed the repayment record on Export-Import Bank loans.

Mr. Cabot expressed the view that loans for basic utilities in Latin America would actually help rather than harm private investment. In this connection he pointed out that the absence of transportation and power facilities may often prevent the development of private industry which would utilize such facilities. The Secretary expressed the view that lending in Latin America might at times not be a sound proposition. Mr. Cabot repeated his earlier statement that all he was recommending was adequate loan authority to handle sound economic development loans. The Secretary said that in Mr. Humphrey's view, if the loan were sound, there would be adequate lending facilities in the International Bank. Mr. Cabot pointed out that a Latin American country might not be able to obtain a loan from the International Bank if any member country with influence in the Bank opposed it, even though the loan might be perfectly sound and desirable from the viewpoint of the United States. Mr. Kalijarvi said that members of his staff were of the view that there was a justifiable need for economic development funds over and above the lending capacity of the International Bank.

The Secretary then asked Mr. Cabot to summarize the economic aid program for Latin America that he would recommend for Fiscal Year 1955. Mr. Cabot said that in addition to an increased level of lending, he would recommend the following:

1. Continuation of the technical assistance program at a level no lower than at present ($24.3 million) and if possible at a slightly higher rate.
2. Continuation of the present $1 million United States contribution to the OAS technical assistance program.
3. $15 million for the military aid program.

The Secretary inquired concerning the importance of the military aid program in Latin America and asked whether it would be possible to eliminate it or to get the Defense Department to include the program in its own budget. Mr. Cabot replied that from a political viewpoint it would be desirable to avoid anything that would involve falling down on commitments that we have made to the Latin American countries.

Mr. Kalijarvi indicated that he felt that we ought to examine the military aid program for Latin America from the viewpoint of whether or not we have effectively utilized the funds that we have already requested. He said that if the funds have not been effectively utilized, we might consider not asking for additional money for the program.

Mr. Cale pointed out that the military program has been set up to do a specific job, that the Congress has already appropriated enough money substantially to complete supplying the equipment required of us under the program and that discontinuance of the program would mean giving up benefits which the money we have already invested would enable us to obtain, if we were prepared to continue to appropriate the small amount of funds that would be required to assure that the equipment is effectively utilized. He also pointed out that he regards the military aid program as a small step in the direction of increased military cooperation between the United States and the Latin American countries.

Mr. Nolting said that it was his view, on the basis of conversations which he has had with Defense Department personnel, that the Defense Department would support continuation of the military aid program in Latin America.

The Secretary indicated that, in general, he hopes to throw to the Defense Department the responsibility for justifying funds for foreign military aid. He expressed the view that it would be easier to obtain the necessary appropriations from Congress, if the Defense Department is prepared to justify the expenditure of military aid funds for foreign countries on the same basis that it justifies expenditures for our own national defense.

Mr. Cabot referred to problems with which we are now faced in several countries in Latin America, mentioning particularly Bolivia, Brazil and Chile. The Secretary stated that Mr. Dodge has just raised an objection to the proposal of supplying aid to Bolivia.[4] Mr. Kalijarvi inquired whether Mr. Dodge is objecting to supplying of aid per se or to the way in which it should be supplied. The Secretary answered that Mr. Dodge objected to justifying the aid on the basis of famine or other urgent need. The Secretary stated that he had urged that Mr. Dodge go ahead and approve the proposals made by Mr. Stassen for Bolivia. Mr. Kalijarvi indicated that he thought that Mr. Dodge should do this as an expediency but that he should indicate that this case does not set a precedent.

Mr. Cabot said that he hoped that the aid contemplated for Bolivia this year might considerably reduce Bolivian dependence on imported food. Mr. Cale expressed the view that with the present price of tin, Bolivia, even with the best management, is not likely during the course of one year to be able to make sufficient progress in lessening its dependence on imported food to permit us to get by on any smaller aid program next year than that contemplated for the present year.

Mr. Cabot remarked that economic conditions in Chile seem to be getting constantly worse and that our negotiations looking toward the purchase of their copper are getting stickier because the Chileans are indicating reluctance to do the domestic housecleaning which we think is necessary as a condition to the purchase.

Mr. Cabot pointed out that in addition to the various types of aid mentioned earlier there are certain miscellaneous items that should be taken into account. In this connection he referred to hoof and mouth disease control, saying that we were thinking in terms of $1 million for this but that if the disease spreads the figure may rise to $10 to $15 million.

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[4] For documentation relating to the subject of U.S. emergency assistance to Bolivia, see pp. 535 ff.

Mr. Cabot also indicated that he considered it highly important that we make substantially greater progress than we are now making in completing the Inter-American Highway and the Rama Road. He said that the appropriation of $1 million for the Inter-American Highway this year is so small in relation to the work to be done that it raises the question whether the money can be used economically. Mr. Cabot expressed the view that we should request at least $4 million for the Inter-American Highway for Fiscal Year 1955 and $2 million for the Rama Road. The items for hoof and mouth disease control and for construction of the two highways have in the past been carried, respectively, in the budgets of the Department of Agriculture and the Department of Commerce.

In summary, the economic assistance program for Latin America for Fiscal Year 1955 recommended by ARA is as follows:

1. An expansion of Export-Import Bank and International Bank lending.
2. The following mutual security program:[5]
    a. Bilateral technical assistance—$24.3 million.
    b. OAS technical assistance—$1 million.
    c. Military aid—$15 million.
3. Miscellaneous aid items:
    a. Hoof and mouth disease control (previously in the Department of Agriculture budget)—$1 million.
    b. Inter-American Highway (previously in the Department of Commerce budget)—$4 million.
    c. Rama Road (previously in the Department of Commerce budget)—$2 million.
    d. Food aid for Bolivia—$15 million.

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[5] Definitive appropriations under the mutual security program for FY 1955 are contained in the Mutual Security Appropriation Act of 1955 (Public Law 778), approved Sept. 3, 1954; for text, see 68 Stat. 1219.

810.2612/11-553

The Assistant Secretary of State for Inter-American Affairs (Cabot) to the Director of the Bureau of the Budget (Dodge) [1]

CONFIDENTIAL [WASHINGTON,] November 5, 1953.

MY DEAR MR. DODGE: It has been my privilege today to appear before members of your Bureau to discuss the appropriation of funds for the Inter-American Highway and the Rama Road. I should like to call your attention to the great importance which the Department of State attaches to these projects.

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[1] Drafted by Mr. Ohmans.

As you know, Public Law 413–82nd Congress (the Federal Aid Highway Act of 1952),[2] authorized the appropriation of $8,000,000 a year for each of two fiscal years for the Inter-American Highway, and $2,000,000 a year for each of two fiscal years for the Rama Road in Nicaragua. These funds would remain available until expended. In Public Law 195,[3] 83rd Congress, the Congress appropriated for the current fiscal year only $1,000,000 for the Inter-American Highway, and only $1,000,000 for the Rama Road. The funds are now being allocated, and only a minimum amount will remain at the end of this fiscal year.

The first authorization of funds for the actual construction of the highway was made by the Congress in 1941,[4] and frequently since then the Congress has reaffirmed its intent to complete the highway. The United States has spent more than $42,000,000 on its share of the Inter-American Highway thus far, and in total, the other countries have spent almost as much. Thus, there is a long record of close cooperation on the road. The momentum of construction should not be allowed to falter.

This cooperation, moreover, is a very important factor in the political relations of the United States with its neighbors in Central America. Our financial aid is matched with contributions by the other governments (one-half of the United States share), and this mutual approach to a necessary and highly useful developmental activity has added to the reservoir of good will for the United States in the area. Guatemala, it should be noted, currently does not receive any financial aid for highway construction, and the Department is anxious to emphasize the close and effective cooperation it offers to Guatemala's neighbors.

The highway will benefit the United States as well as the cooperating countries of Central America. It will promote economic progress and political stability in those relatively underdeveloped countries. It has in the past, and should increasingly in the future, add to the imports from the United States, especially automotive and highway equipment, as the economies of the nations prosper because of the increased transportation facilities within their borders. Also, with the bettered standard of living, political conditions in the countries are bound to improve, and the spread of Communist ideas can be deterred.

The Department of State considers that at least $4,000,000 should be requested for the Inter-American Highway because the funds are intended for use in three cooperating countries, namely, Nicaragua, Costa Rica, and Panama. With only $1,000,000, such as was appropriated by the last Congress, the unit costs rise, and it is difficult to proceed with new projects in all of the countries. Moreover, the economic situations in those countries now are relatively good, and they are far better prepared now to provide their full share to match the United States contribution.

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[2] Approved June 25, 1952; for text, see 66 Stat. 158.

[3] Reference is to the Departments of State, Justice, and Commerce Appropriation Act of 1954, approved Aug. 5, 1953; for text, see 67 Stat. 367.

[4] Under the Provisions of the Inter-American Highway Act (Public Law 375), approved Dec. 26, 1941; for text, see 55 Stat. 860.

With respect to the Rama Road, the Department of State firmly supports the appropriation of $2,000,000 for the next fiscal year. The Rama Road in Nicaragua should have equal priority with the Inter-American Highway in the appropriation of funds so that this road building commitment of the Executive Branch of the United States, now recognized by the Congress, can be met in the shortest practicable time. There is only a brief period in which the construction work on the remaining section of the Rama Road can be carried out, and the appropriation of $2,000,000 would provide the funds necessary for an intensive construction period. Nicaragua is a country whose Government and people are particularly friendly to the United States, offering consistent and valuable support in all international matters.

I sincerely hope that it will be possible for the Bureau of the Budget to approve this request to the Congress for the additional appropriation of funds for the Inter-American Highway and the Rama Road in Nicaragua. Both of these projects are of substantial importance in the foreign relations of the United States with its neighbors in Central America.

Sincerely yours, JOHN M. CABOT

820.00/1-2054

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Under Secretary of State (Smith)

CONFIDENTIAL [WASHINGTON,] January 20, 1954.

Subject: Briefing Memo for Meeting at White House, Thursday, January 21.

The most fundamental problem we have in our relations with the Latin American republics is that of their economic development. Trade and private investment, both native and foreign, can greatly stimulate this development but cannot carry the entire burden. It is essential that public financing at reasonable interest rates be available for the development of basic facilities such as roads, airports, harbor works, irrigation, railways, utilities, etc. (which are essential to increased private investment), if we are to convince our Latin American friends that our protestations of friendship are more than pious platitudes, that cooperation with us does benefit them and does raise their living standards, and that our democratic capitalism is far better for them than Communism with its rosy promises.

During the next five years some three-quarters of a billion dollars worth of loans must be repaid by Latin America to the International and Export–Import Banks. This in itself will mean a heavy drain on the economies of the Latin American republics unless it is replaced by new lending.

The Export–Import Bank has established an enviable record in the Latin American field. It has maintained friendly relations with governments throughout the area, developed many basic facilities, sustained only microscopic defaults, already collected almost 40 percent of the principal it has lent, and made a handsome profit for the United States above all interest and other charges. It has in part been superseded in this work by the International Bank. This Bank has also done creditable work in the development field and has been particularly effective in its basic economic studies. The International Bank is relatively new in the Latin American field and has in some cases been subject to criticism (not always warranted) in the development of its policies. The International Bank is, moreover, not responsible to the United States Government alone, but also to the governments of all its other member states. It does not, and should not, act as an instrument of our policy since it must bear in mind the interests of other members when making a loan. For example, Peru has been unable until very recently to obtain loans from the International Bank despite its sound economic policies and financial condition because it was unable to reach a debt settlement with the British acceptable to both American and British bondholders.

It is universally agreed that the main burden of development in Latin America should be borne by the International Bank. There are, however, cases in which the Bank will not, or cannot, make development loans which we wish to see made in our national interest, as in the Peruvian case above, in the case of the development of strategic resources, or in any case where the development is in our national interest but the guarantee of the local government (which the International Bank requires) is undesirable. We believe that the Export–Import Bank should be permitted to make loans under such circumstances; that it should be authorized to act as an instrument of national policy. Care should, of course, be taken to ensure that the two Banks between them do not overload any country with debt. We believe that the Export–Import Bank should not, as a matter of policy and existing law, make any loans unless it expects that the loan will be repaid. It is a fact, however, that the Latin American republics are seriously perturbed at the narrowing of the Export–Import Bank's activities, and it should be given sufficient liberty of action to reassure them.

Mr. Humphrey's reply[1] to Dr. Eisenhower states that "while the Export–Import Bank is not authorized to raise money through selling its own security issues in the market, its broad powers of guarantying notes of borrowers permit it to use this device for raising funds from the private capital market. The use of guaranties by the Export–Import Bank appears justified because they are a charge against the Bank's authorized lending authority. They are not a charge against the Government's cash budget except in case of default by the borrowers. It is our belief that by the use of guaranties, together with carefully worked out provisions for requiring the applicant for loans to put some of his own money at risk, the Export–Import Bank can go a long way in meeting legitimate needs."

We believe that this statement indicates that Mr. Humphrey is prepared to permit the Export–Import Bank to operate on a somewhat wider scope in the future than it has during the past year. We understand, moreover, that there are means permissible under the existing Export–Import Bank Charter by which private capital sources could be tapped by the Export–Import Bank without even increasing the Federal debt. We hope, therefore, that while recognizing the primary responsibility of the International Bank in the development field, the Export–Import Bank will be permitted to make loans in those cases in which the International Bank is unwilling to make them and this Government, taking all considerations into account, considers that it is important in the national interest that these loans be made. We feel that we should be in a position before or at Caracas [2] to give the other American republics public assurances that their needs for sound loans in an amount of, say, one billion dollars for the next five years will be satisfied by the Export–Import Bank in cases where they can be properly made and the International Bank is unwilling, or unable, to make them, and they should be told that the Export–Import Bank operations will not be confined exclusively to the granting of short-term credits strictly in the import-export field.

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[1] Reference is to a memorandum by Mr. Humphrey to President Eisenhower, dated Jan. 15, 1954, containing comments, invited by the President, on certain recommendations made in Dr. Milton Eisenhower's report to the President concerning U.S. relations with Latin America; a copy of the memorandum is attached to a memorandum by President Eisenhower to Secretary Dulles, dated Jan. 16, 1954, not printed. (120.220/1–1654)

[2] Reference is to the Tenth Inter-American Conference, held at Caracas, Mar. 1–28, 1954; for documentation concerning the conference, see pp. 264 ff.

103 XMB/1-2154

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Cabot)

SECRET [WASHINGTON,] January 21, 1954.

Subject: Summary of meeting at White House on January 21, 1954.

Participants: The President, Dr. Milton Eisenhower
State: General Smith
Mr. Waugh
Mr. Cabot
Treasury: Secretary Humphrey
Assistant Secretary Overby
Commerce: Secretary Weeks
Assistant Secretary Anderson
Eximbank: General Edgerton

General Smith outlined the concern of State at the restrictions on the operations of the Eximbank. Mr. Waugh then followed this by a more detailed statement. Dr. Eisenhower mentioned the desirability of putting through the Toquepala project.[1] Mr. Humphrey then explained his strong oppostion to loaning money to one American company to compete commercially against another. He was firmly opposed to Toquepala on this ground. He would, however, be glad to see the Eximbank used for short and intermediate-term export credits provided the exporters assumed a part of the risk.

Quite an argument followed regarding the quality of Eximbank loans. Secretary Humphrey pointed out that the Bank had loaned $1,200 million to France [2] and that payment of this sum was doubtful. Mr. Waugh pointed out that the International Bank had loaned $250 million to France later. In answer to a question of Mr. Cabot, General Edgerton said that they did not anticipate any defaults on any of their Latin American loans now outstanding. Secretary Humphrey argued at considerable length against soft loans and it was difficult to divert him from this by pointing out that none of State's representatives were recommending soft loans in the Latin American area in any case.

The President's position, as shown by various comments in the course of the discussion, was clearly in favor of a more liberal loan policy toward Latin America. He also commented that when we were spending $36 billion a year on defense it did not seem a great risk to put an extra $17 million into Latin America in the interests of our security.

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[1] Reference is to the project for large-scale development of copper deposits in southern Peru; for pertinent documentation, see pp. 1491 ff.

[2] Reference is to Export-Import Bank Credit Nos. 382 and 404, authorized, respectively, Sept. 11, 1945 ($550,000,000) and June 19, 1946 ($650,000,000).

The conversation was decidedly disjointed, with no clear decisions reached in the course of it other than that it would be further discussed at the NAC meeting the following day.[3]

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[3] At the 206th meeting of the National Advisory Council, held on Jan. 22, 1954, the Council approved a statement of principles relating to the coordination of the activities of the Export-Import Bank and the International Bank for Reconstruction and Development; the minutes of the meeting and the statement of principles are printed in volume I.

820.2395/12-953

The Acting Secretary of State to the Director of the Foreign Operations Administration (Stassen) [1]

SECRET [WASHINGTON,] February 5, 1954.

MY DEAR MR. STASSEN: Reference is made to your memorandum of December 9, 1953[2] in which you request comments from this and other Departments on the recommendation of the Foreign Operations Administration that the Latin American rubber research program be terminated in so far as FOA is concerned as of June 30, 1954. Your memorandum further suggests the possibility that the program be taken over by the Latin American governments concerned, by the American rubber industry, or by other United States Government Departments.

Careful consideration of this question in this Department has led to the following conclusions:

1. This research program affords a continuing opportunity to accumulate experience and knowledge in fighting leaf blight that might prove invaluable if the leaf blight should somehow be transmitted to the Far Eastern rubber holdings.
2. A research program would seem to be a logical complement of any program of agricultural diversification in Latin America which may include rubber planting. The possibility of producing rubber economically as a cash crop in Latin America would seem to depend on the development of a high-yielding blight resistant plant.
3. If the Foreign Operations Administration does not believe that it can continue the inclusion of an appropriation of $300,000 in its budget for the 1954-55 fiscal year, this Department would endorse a transfer of the program to another appropriate agency of the Government. Alternatively the program might be supported by the rubber manufacturing industry, by a private foundation, or by the Latin American governments concerned. It would not be within the functions of this Department to take jurisdiction over this program. The Department would be

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[1] Drafted by A. J. Macone and Stanley Nehmer of the Office of International Materials Policy; cleared with that Office and the Office of Middle American Affairs.

[2] In the referenced memorandum, Mr. Stassen stated that the reasons for recommending the termination of the rubber research program in Latin America were: (1) the project was of marginal importance to U.S. military security interests, (2) it had not contributed effectively to the U.S. objective of promoting balanced economic development, and (3) there was at present a world surplus of natural rubber. (820.2395/12-953)

willing, however, to use its good offices with other governments to investigate the possibility of their taking over the program if it should be decided to adopt that alternative.

4. An abrupt announcement that the research program will be terminated at the end of June 1954 might create repercussions in the Latin American countries involved. This Department, therefore, would wish to be kept advised as to further action by the Foreign Operations Administration in this matter in order to allow time for adequate consultation with the governments concerned. In this connection FOA might wish to consider extending the research program through a portion of the next fiscal year to allow more time for a suitable disposal of the program.

Sincerely yours, For the Acting Secretary of State:

SAMUEL C. WAUGH

Assistant Secretary

S/S-NSC files, lot 63 D 351, NSC 5407 series

Report Prepared for the National Security Council [1]

[Extract] [2]

TOP SECRET
NSC 5407

[WASHINGTON,] February 17, 1954.

LATIN AMERICA

A. U.S. OBJECTIVES AND COURSES OF ACTION

The Milton Eisenhower visit was a major political and economic event of the year in Latin America. It has contributed to a new spirit of optimism and franker understanding of mutual problems.

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[1] The report, titled "Status of United States Programs for National Security as of December 31, 1953," consists of a series of nine parts and two annexes, separately dated and prepared by the following agencies: Department of State (Part 1—Our Relations with the Free World), Department of Defense (Part 2—The Military Program), Foreign Operations Administration (Part 3—The Mutual Security Program), Atomic Energy Commission (Part 4—The Atomic Energy Program), Office of Defense Mobilization (Part 5—The Mobilization Program), Federal Civil Defense Administration (Part 6—The Civil Defense Program), United States Information Agency (Part 7—The USIA Program), Central Intelligence Agency with concurrence by the Intelligence Advisory Committee (Part 8—The Foreign Intelligence Program and Related Activities), Inderdepartmental Intelligence Conference and Interdepartmental Committee on Internal Security (Part 9—The Internal Security Program), Central Intelligence Agency (Annex A—Some Comparable Data on the Soviet Bloc), and Operations Coordinating Board (Annex B—Activities of the Operations Coordinating Board). The overall report is undated; Parts 4 and 6, and Annex A were distributed to the members of the NSC on Feb. 17, 1954, and the remaining parts were transmitted upon their receipt by the Executive Secretary of the NSC.

[2] This extract is from Part 3, dated Mar. 11, 1954.

U.S. economic objectives and courses of action with respect to Latin America as stated in NSC 144/1,[3] have been confirmed and further articulated in Dr. Eisenhower's recommendations.

In several areas the Eisenhower recommendations go beyond previously documented policy. The principal recommendations involving either change in policy or substantial shift in emphasis are the following:

1. A long-range basic materials policy permitting purchases for enlarged stockpiles when prices are declining. (Present stockpiling policy does not envisage stockpiling procurement beyond the calculated goals for the subsidiary purpose of international commodity market stabilization.)
2. Maintenance of a national lending institution to make sound development loans which are in our national interest, but which might not be made by an international agency. (This would require changing the present policy under which the Export–Import Bank operates or establishment of a new U.S. lending agency.)
3. Expansion of the technical cooperation problem in Latin America. (Present NSC policy calls for "Continuing the program of technical assistance to the area, but designing individual projects within the capability of the particular country concerned".)
4. Assigning the consultative part of the technical cooperation task, whenever possible to American universities. (Now done in only a few cases.)
5. Withdrawal of U.S. personnel when a particular project is well established. Dr. Eisenhower states that this is the present policy but that it is not always followed.

The President has expressed his general approval of the Milton Eisenhower report and has asked FOA to implement those recommendations which are within present policy and to give thorough consideration to those recommendations which would require new policy decisions. Development of specific steps to implement the Milton Eisenhower recommendations was the main work of the Lima Conference of USOM Directors of January 13–19.[4]

B. ECONOMIC TRENDS

Latin America's remarkable postwar economic growth is evident in the average annual increase of 5.6% in the area's gross national product at constant prices from 1946 through 1951. The period of rapid progress ended abruptly, however, with overall GNP actually declining in real terms during 1952 and barely recovering to the 1951 level in 1953.

In the absence of production expansion, the persistent annual population increase of 2.5% led to reductions in the average Latin American standard of living as measured by per capita income in both 1952 and 1953. The declines generally took the form of reduced availability of food. FOA estimates average Latin American per capita GNP of $318 in 1953.

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[3] NSC 144/1, titled "United States Objectives and Courses of Action With Respect to Latin America," dated Mar. 18, 1953, and approved by President Eisenhower on the same date, is printed on p. 6.

[4] Pertinent documentation is in A/MS files, lot 54 D 291, "Relationship with FOA".

The recent slackening of economic progress relates in part to imbalances generated by the development efforts of the Latin American countries themselves and in part to changes in external factors such as international commodity markets.

1. *Problems of Balanced Expansion*

The numerous recent evidences of imbalance in Latin American development include payments crises, inflation, food and power shortages, and reduced petroleum production.

Although Latin America's aggregate holdings of gold and dollars increased by an estimated $252 million during 1953, critical payments situations developed in several countries, notably Brazil and Bolivia. Moreover, the overall rise in reserves would not have occurred without the Export–Import Bank's loan of $300 million to Brazil necessitated by a pressing backlog of commercial debts. In Peru, unfavorable year-end trends brought the sol-dollar exchange rate from 17.85 in October to 21.89 on January 26th. The President of Peru has requested a short term stabilization loan from the U.S. Treasury, particularly with a view to improving psychological attitudes on the exchange market.

Inflation is a problem of serious proportions in Bolivia and Paraguay. The cost of living has risen by 135% in La Paz and 72% in Asuncion during the past year. Inflationary pressures are continuing to a lesser, but still critical, extent in Brazil and Chile.

Food supply has become a major problem owing to population growth and under-emphasis on agricultural development. Food output per capita in 1952–53 was only 96% of the prewar quantity. Chronic food deficits exist in some countries, e.g. Haiti, and famine conditions have occasionally developed in various regions, e.g., the food shortage in early 1952 causing the migration of some 300,000 persons from northeastern Brazil.

Electric power rationing is a common necessity in Latin American cities. In view of the great need for rapid expansion in this sector, the rise of 8.7% in production during 1953 appears small in comparison with the increase of 11.5% achieved in the U.S.

Latin American production of crude oil declined about 2% in 1953 as compared with average annual increases of 11% from 1949 through 1952. Reduced levels of output were recorded not only by the major producer, Venezuela, but also in Bolivia, Mexico, and Peru. Latin American heavy crudes were facing soft markets with Middle East production substantially increased and U.S. imports reduced. The reversal of the production trend represents a foreign exchange loss and also aggravates fuel and energy shortages.

2. *Trade and Commodity Problems*

Although strengthened and diversified by post war programs for domestic development, most Latin American economies are still dominated by international commodity markets. Exports of primary goods are the principal source of income to finance imports for current consumption and equipment required in implementation of development projects.

Substantial improvement in terms of trade was a major dynamic factor in Latin America's wartime and postwar economic growth. In October 1953 the area's terms of trade were still 64% more favorable than in 1938, following a decline of about 10% from the average in the peak year 1951. Post Korean price developments have had little impact on the aggregate Latin American terms of trade, but the effects in individual countries have ranged from crisis in tin-exporting Bolivia to general prosperity in the coffee-exporting countries.

The Latin American countries are aware of U.S. policy directed toward liberalization of trade and are disturbed by recent actual or proposed increases in U.S. import restrictions on lead, zinc, fuel oil, wool and oats. A number of individual trade and commodity problems continue to irritate economic relations between the U.S. and some of the Latin American countries. Uruguay, for example, has objected strongly to the U.S. decision that the preferential treatment by Uruguay of wool top exports was tantamount to a subsidy and that a compensatory duty on such imports was mandatory. Chile complained formally to the State Department regarding the alleged loss of her nitrate market in Greece due to unfair competition from U.S. exports of ammonium sulphate produced in plants which were purchased by present owners from the U.S. Government at 20% of cost. The Chilean Government has also felt that we should buy for stockpile in return for their promise to solve the internal copper problem and not to sell to Russia.

C. THE FUNDAMENTAL PROBLEM—ECONOMIC DEVELOPMENT

The promotion of rapid and balanced economic development on the basis of sound policy and planning is the principal objective of FOA in Latin America.

Latin America's potential for development has been demonstrated by postwar progress. The need for even more rapid development is evident in all of the available indicators of living standards. The insistent demands of the population for immediate economic improvement have an important bearing on internal politics and are of great importance in U.S. relations with the Latin American countries.

Development progress depends on three principal factors, all of which may be affected by internal political considerations in the Latin American countries: (1) realistic country development plans, (2) availability of investment capital, and (3) technical progress.

1. *Country Development Plans*

A majority of the Latin American countries now have economic development plans and agencies charged with coordinating their implementation.

Experience of Latin American governments in the development field has led to a new awareness of the need for balanced growth of industry, food supply, fuel and energy sources, and transport facilities. One major error in past planning has been corrected by new emphasis on food production in some countries, e.g. Mexico, Argentina, and Chile. Regional planning efforts by the Central American republics, by Brazil, Peru, Chile, and Argentina may or may not be another constructive step, depending on the nature of the results.

FOA has sought to improve country planning, particularly through provision of the technical knowledge on which country government decisions could be based and by advising governments on means of organizing effectively for development planning. U.S. responsibility for actual planning decisions has usually been avoided, however, except in response to specific invitation as in the case of the Joint Development Commission in Brazil. International organizations have a unique opportunity in this field because their advice is likely to be more acceptable than that of any one government.

2. *The Need for Capital*

Realization of Latin America's potential for economic development will require a huge investment of private and public capital from both domestic and foreign sources over an extended period. Since World War II total domestic and foreign investment in Latin America has averaged about $7 billion annually, with domestic investment accounting for over 90% of the total.

a. Domestic Investment

Over 90% of total investment in Latin America since World War II has been provided by domestic capital. From 1946 through 1952 the Latin American countries invested an average of some 16% of their GNP annually. Private investment accounts for the major portion of domestic capital formation, although in recent years government investment has increased in quantitative and qualitative importance. A substantial share of domestic investment has taken the form of relatively unproductive types of construction, speculative commercial ventures, and investments in consumer goods industries not directly serving development purposes.

b. Foreign Investment

The low ratio of foreign to total investment in Latin America obscures the importance of foreign capital, which brings with it technical skills and has usually entered fields of particular importance to economic development. Foreign capital has also encouraged the flow of domestic captial into jointly financed development projects.

(1) *Public Loans*

Until 1948 the U.S. Export-Import Bank was the principal source of foreign public loans to Latin American countries for economic development. Since then the IBRD has assumed gradually increasing importance in this field and is currently making development loans in Latin America on a substantially larger scale than the Export-Import Bank. Present U.S. policy requires the Export-Import Bank to refer applicants for development loans to IBRD. Dr. Eisenhower's recommendations, however, point out the need for a U.S. lending agency to make development loans in the U.S. national interest which might not be made by IBRD.

(*a*) *International Bank*

IBRD loans to Latin American countries through December 31, 1953, totaled $446.8 million, of which $76.6 million was granted during 1953. Nearly 70% of the total investment is in electric power development with the balance spread out over railroads, highways, industry, agriculture, and ports.

(*b*) *Export-Import Bank*

Net active credit authorizations of the Export-Import Bank to Latin America as of December 31, 1953 amounted to $1,348 million, of which less than 10% was for electric power. Latin American industry has received loans totaling $244.2 million, with major emphasis on steel in Brazil, Chile, and Mexico. With the exception of a $300 million loan for Brazil, the Export-Import Bank's new authorizations in Latin America were extremely limited during 1953—$17.3 million—as compared with the annual average of $126.7 million from 1946 through 1952.

(2) *U.S. Grant Aid for Basic Public Works*

During World War II, with a view to effecting essential highway construction in the U.S. national interest, the U.S. undertook to contribute grant funds toward the financing of the Rama Road in Nicaragua and the Inter-American Highway. Total U.S. investment to date is $5 million in the Rama Road and $47 million in the Inter-American Highway. Estimated further cost to the U.S. before completion is $3 million for the former and $56 million for the latter.

(3) *Private Investment*

Latin America shared in the accelerated growth of U.S. private direct investment abroad during 1950–52, but to lesser extent than other areas (i.e. up 25% as compared with 48% elsewhere). The total book value is now about $6 billion with Venezuela and Brazil each accounting for over $1 billion. The Brazilian total rose from $588 million at end of 1949 to $1,013 million at end of 1952. Petroleum is still the principal sector (over one-fourth of the Latin American total), but investments in manufacturing and in mining have been gaining rapidly in recent years.

During 1952 U.S. private direct investment in Latin America amounted to $582 million, of which $278 million represented net inflow of new capital and $304 million undistributed subsidiary earnings. In 1953 estimated net inflow of new capital dropped to $113 million, with undistributed earnings staying at $304 million. Recent changes in the private investment climate appear to be generally unfavorable. An intense spirit of economic nationalism continues to operate against the desire and the need for development.

Although the main responsibility for improving the private investment climate must rest with the country governments, there are a number of important U.S. measures in effect or being developed to increase the incentive of U.S. investors. Since the fundamental incentive for private investment is the anticipation of favorable markets, the major potential U.S. contribution in this field lies in fuller implementation of the established policy of encouraging Latin American exports to the U.S. The MSP investment guarantee program, thus far in Latin America limited to a contract with Haiti,[5] will be given a further trial with coverage extended to risks of war, revolution, and insurrection (as recommended by the Randall Commission),[6] in addition to the present coverage for risks of expropriation and inconvertibility. Another possibility for U.S. action is through tax incentive measures as recommended by Dr. Eisenhower and the Randall Commission. Finally, opportunities frequently arise for private investment directly related to U.S. technical assistance programs, e.g. the du Pont plant for insecticides in Peru, Bethlehem's investment in the manganese mines of Amapa in Brazil.

3. *The Technical Base*

U.S. assistance programs in Latin America have been directed primarily toward meeting the need for adequately trained technicians and to improve techniques in production and other fields. During the past twelve years some 20,000 Latin Americans have been trained on the job and more than 3,000 trainees have been brought to the U.S. for study. The impact of the programs has been magnified many times by trainees passing on new techniques within their own countries and by inter-country technical exchanges which have been effected under U.S. programs and also at the initiative of the countries themselves. These programs have sought to increase *productivity* through projects relating to food supply, health, housing, and education; and to increase over-all *production* through projects in agriculture, industry, natural resources, power, and transportation. Congress appropriated $22.3 million for technical cooperation programs in the Latin American countries during FY 1954 and the countries themselves are making available the equivalent of $44.6 million.

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[5] For text of the exchange of notes constituting an agreement between the United States and Haiti relating to guaranties authorized by section 111 (*b*)(3) of the Economic Cooperation Act of 1948, as amended, signed at Washington, Mar. 13 and Apr. 2, 1953, and entered into force on the latter date, see Department of State Treaties and Other International Acts Series (TIAS) No. 2818, or *United States Treaties and Other International Agreements* (UST), vol. 4 (pt. 2), p. 1546.

The Economic Cooperation Act of 1948 is Title I of the Foreign Assistance Act of 1948 (Public Law 472), approved Apr. 3, 1948; for text, see 62 Stat. 137.

[6] Reference is to the President's Commission on Foreign Economic Policy, commonly referred to as the Randall Commission after its chairman, Clarance B. Randall. The recommendations of the commission are contained in its *Report to the President and the Congress* (Washington, 1954). For documentation concerning the commission and its activities, see volume I.

Principal developments from June–December, 1953, were:

a. Dr. Eisenhower's recommendation that the technical assistance program be expanded. The USOM's are reevaluating their programs and budget requests submitted for FY 1955 and are making appropriate program modifications to carry out the Eisenhower recommendations.

b. A broadened FOA approach to the development problem, with greater attention to the impact of foreign exchange problems, trade and commodity fluctuations, and other current economic realities.

c. Continuation of the Servicio as the principal operational device of the technical cooperation program in accordance with the recommendation of Dr. Eisenhower. The Servicios provide a mechanism for true partnership and an effective device for smooth transfer of activities from U.S. to country government direction.

d. New attention to means for assuring that activities initiated by Servicios are transferred to agencies of the host country as soon as the latter are able to assume the responsibility. Dr. Eisenhower observed that this established policy has not always been followed in practice.

e. Expanding the consultative role of American universities in the technical assistance program in the course of normal operations and in specific response to Dr. Eisenhower's recommendation.

f. Continued vigorous support of the operations of international agencies by FOA and other U.S. agencies in Latin America in accordance with existing policy and the recommendations of Dr. Eisenhower. A major goal is to assure that programs are complementary, e.g. recent IBRD loans in Brazil have been given to projects of top priority in the plan of the Joint Development Commission.

As in earlier years, the U.S. has pledged $1 million in support of 1954 OAS regional projects, provided that the U.S. contribution does not exceed 70% of the total. The U.S. also covers 60% of the financing of UNTA programs throughout the world. Total UNTA expenditures in Latin America during calendar 1953 are estimated at $4.7 million.

D. SPECIAL PROBLEMS

1. *Bolivia*

The midsummer Bolivian payments crisis developed essentially because of uncertainties regarding tin marketing and the decline of about

25 percent in tin prices during the second quarter of 1953. Recognizing the crisis proportions of the Bolivian economic situation, the U.S. announced on July 6 that the RFC would purchase 10,000 tons of Bolivian tin and that the technical assistance program would be more than doubled. The RFC purchase was contracted for on September 23rd and all but 600 tons have now been delivered. The RFC contract, however, was not in itself intended to be a solution of the Bolivian crisis. The U.S. in October decided to provide economic aid to Bolivia with the immediate objective of covering the country's current food deficit and the longer run objective of aiding the Bolivians to become self-supporting through diversification of their economy. U.S. aid programs in Bolivia for FY 1954 amount to a total of $12.5 million and include the following: (*a*) $1.5 million of regular TA; (*b*) $2 million of expanded TA for emergency food development; (*c*) $5 million of CCC surplus wheat and flour under PL 216 ("Famine Relief"); and (*d*) $4 million of FOA program funds.

U.S. political observers in the field and in the State Department are convinced that the present FOA emergency programs have been successful in terms of averting immediate economic crisis, improving relations with the U.S., and reducing Communist influence in government and labor. The longer run outlook, however, is doubtful. In view of Bolivia's poor competitive position and the general deterioration of world tin markets, Bolivia faces further reductions in her capacity to finance imports of development goods.

2. *Guatemala*

In Guatemala, Communism has made its most serious penetration in Latin America. The Government of Guatemala, though not itself Communist, has welcomed Communist support and has assisted Communists to gain key positions in the pro-Government parties, organized labor, the Congress, and the Government bureaucracy. The Communists have been operating chiefly through the land reform program, seeking to obtain control over the large estates by exploiting differences between the landholders and the poor Ladinos and Indians.

From July 1, 1950 through September 30, 1953, Guatemala was allotted $743,000 of U.S. Technical Cooperation Program funds, almost entirely for agriculture and health. Program emphasis is continuing on these two activities in FY 1954. These minimum operations are being maintained in order to preserve contact with non-Communists in and out of government and to avoid loss of our previous investment in projects which may be useful after the Communist influence in the country is eliminated.

3. *Argentina*

Argentina, continuing her campaign for closer economic ties with her neighbors, has negotiated "economic union" agreements with Chile, Paraguay, and Ecuador, and has offered agricultural technical aid to Paraguay. An agreement for economic union with Colombia is also expected shortly. The agreements thus far are nothing more than declarations of intent, with detailed protocols still to be negotiated. The U.S. attitude has been one of watchful friendliness; welcoming action to improve Latin American economies, but recognizing the danger of economic penetration as well as duplication of activities now in progress.

611.20/3-01254

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward) to the Acting Secretary of State [1]

CONFIDENTIAL [WASHINGTON,] March 2, 1954.

Subject: Presidential and Cabinet Support of Eisenhower Report Recommendations for Strengthening Latin American Relations.

In response to your request to Mr. Cabot, I believe the Secretary would be in a firmer position to state at Caracas that the Administration is taking steps to carry out Dr. Milton Eisenhower's recommendations if the President were to request Cabinet cooperation now on the following points:

1. That in considering projects in Latin American relations the Cabinet follow the general guidance of the President's comment in a memorandum of January 12 (Tab A) [2] concerning Dr. Eisenhower's supplementary recommendations in which the President said "I am struck by the fact that a very small loan investment or grant on our part might reap very definite and extensive advantages to us." [3]

2. That the policy of the Export-Import Bank on economic development loans agreed on February 26 (Tab B) [4] between the Secretary of State and Secretary Humphrey be carried out in a way that will yield the maximum benefit from the Eximbank as an instrument of national policy.

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[1] Drafted by Mr. Woodward, with the assistance of Christopher Van Hollen of the Executive Secretariat.

[2] The referenced memorandum, transmitting a copy of Dr. Eisenhower's supplementary report to Secretary Dulles, was not found with the source text; however, a copy is in file 120.220/1-1254.

[3] The statement quoted from President Eisenhower's memorandum actually reads as follows: "In reading over the specific problems pertaining respectively to the several countries, I am struck by the fact that, in a number of cases, a very small loan investment or grant on our part might reap very definite and extensive advantages for us."

[4] The statement contained in the attachment (designated "Attachment A" on the source text), not printed, appears as item 5 in Secretary Dulles' address delivered to the Second Plenary Session of the Tenth Inter-American Conference on Mar. 4, 1954; for text of the address, see *Tenth Inter-American Conference: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 43-51.

3. That, on specific current items on which the State Department has just initiated action, the Bureau of the Budget

(*a*) cooperate with State in requesting a 1955 supplemental appropriation of about $975,000 for "Exchange of Persons" and $40,000 for Aid to American Schools, and

(*b*) cooperate with Commerce and State in requesting a 1955 supplemental appropriation of $7 million for the Inter-American Highway (to give more assistance to countries near Guatemala).

4. Although Panama was not mentioned by Dr. Eisenhower, since he did not visit there, it should be very valuable if the President were to ask all agencies concerned (principally Defense) to redouble efforts to give as much satisfaction and assistance to Panama as possible in matters which do not affect our fundamental rights—e.g.

(*a*) more equitable treatment of Panamanian employees by U.S. agencies in the Canal Zone,

(*b*) reduction of non-essential commercial competition by U.S. agencies, and

(*c*) obtaining legislation and apporiations to provide a $2 million annual economic development fund for 10 years in lieu of amending the annual Treaty stipend of $430,000.

5. Several of the recommendations made by Dr. Eisenhower will require continued or increased appropriations in 1956 and it would be valuable to have even at this time a general assurance of Administration support for

(*a*) a possible increase of $2 million or more in technical assistance by FOA (the present 1955 request of $23 million is considered ample for current expansion because of elasticity within the total appropriation;

(*b*) $8 million for the Inter-American Highway (which could be completed in about 7 years from now at this rate);

(*c*) $2 million for the Rama Road in Nicaragua (at this rate, this road given to Nicaragua because of our treaty option to build an interoceanic canal, could be finished in three or four years);

(*d*) About $2 million additional for the USIA in Latin America (the 1955 request is about $2.8 million);

(*e*) About $900,000 additional for U.S. contributions to Inter-American organizations (these have been cut down from 30 to 13 organizations in 6 years, and our contribution is about $3.6 million); and

(*f*) Other smaller increases may be found necessary in carrying out the many recommendations of Dr. Eisenhower.

A schedule of comparative budget items from 1953 to 1956 is attached. (Tab C) [5]

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[5] Designated "Attachment B" on the source text.

Attachment B

Table Prepared in the Bureau of Inter-American Affairs

Implementation of Milton Eisenhower Report

	1953 Actual	1954 Program	1955			1956 Proposed
			Present Budget	Additional Requested	Total	
1. *Dept. of Commerce*						
Inter-American Highway						
Appropriation	1,971,431	1,000,000	1,000,000	7,000,000	8,000,000	8,000,000
Plus Carry-over	—	905,135	388,000	—	388,000	—
Rama Road	—	1,000,000	1,000,000	—	1,000,000	2,000,000
Total	1,971,431	2,905,135	2,388,000	7,000,000	9,388,000	10,000,000
2. *Foreign Operations Admin.*						
Bilateral Tech. Asst	17,625,100	22,145,400	22,500,000	—	22,500,000	24,500,000
Plus Carry-over	—	200,000	—	—	—	—
Bolivia-Special Tech. Asst	—	2,000,000	—	—	—	—
Bolivia-Economic Aid	—	4,000,000	9,000,000	—	9,000,000	—
Bolivia-Famine Relief	—	5,000,000	—	—	—	—
Dependent Territories	4,300	196,600	500,000	—	500,000	500,000
OAS Tech. Asst	955,957	1,000,000	1,500,000	—	1,500,000	2,000,000
Panama Development Fund	—	—	—	—	—	2,000,000
Total	18,585,357	34,542,000	33,500,000	—	33,500,000	29,000,000
3. *Mutual Security*						
Appropriation	8,642,464	15,000,000	15,000,000	—	15,000,000	10,000,000
Plus Carry-over	—	50,723,170	—	—	—	—
Total	8,642,464	65,723,170	15,000,000	—	15,000,000	10,000,000
4. *U.S. Information Agency*	6,107,109	4,115,580	5,905,567	—	5,905,567	8,000,000
5. *Dept. of State*						
ARA and Foreign Service	9,008,978	7,573,048	7,571,848	400,000[*]	7,971,848	8,000,000
Int. Educational Exchange						
Exchange of Persons	800,628	668,277	726,110	973,403	1,799,513	1,800,000
American Schools	171,000	128,250	135,000	40,000	175,000	175,000
International Organizations						
Contributions	3,393,544	3,595,361	3,598,162	—	3,598,162	4,462,000
Missions	51,500	38,000	34,000	—	34,000	38,000
Total	13,425,650	12,002,936	12,065,120	1,413,403	13,578,523	14,475,000

[*] Certain economic and labor officer positions can be funded with FOA allotments for "support" in these fields. [Footnote in the source text.]

820.2395/3-1354

The Director of the Foreign Operations Administration (Stassen) to the Assistant Secretary of State for Economic Affairs (Waugh)

SECRET WASHINGTON, March 13, 1954.

DEAR MR. WAUGH: Thank you very much for your letter of February 5, 1954,[1] commenting on my memorandum of December 9, 1953, regarding the continuation of financial support by FOA of the Latin American rubber research project.

Our recommendation contained in that memorandum was based on conclusions arrived at from a survey of the facts—including the opinions of the Departments primarily concerned regarding the security importance to the United States of the continuation of the Latin American rubber research project. At that time, the opinion of the Departments primarily concerned ranged from State's opinion that no appreciable security interest was at stake and Defense's that the project could not be justified as a real security need to Office of Defense Mobilization's that the project was necessary as a further precaution and would enhance our security interests. FOA concluded from this survey that the project was of marginal—not major—importance to the military security interests of the United States. Since then, the replies to my memorandum from the Departments mentioned have not conflicted with their previously stated opinions. However, Defense now states that while it agrees that the project is of marginal importance to present military security interests, it believes that a continuation would considerably enhance future security interests in the area of natural rubber.

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[1] *Ante*, p. 207.

FOA does not determine for the United States Government what the security interest of the United States is. If the Departments primarily concerned with United States security now conclude that this project is of major or significant security interest to the United States, FOA naturally would change its previous conclusion that it is of marginal security interest.

Security interest, while of central importance to a decision as to whether the project should be continued by the United States Government, was only one of the reasons why FOA concluded that FOA intended to discontinue financing the project after the fiscal year and after an orderly transition to another agency—private or public, foreign or domestic—had been attempted. Another important reason referred to was the fact that, thus far, no Latin American country has shown an interest in providing funds for the project. Unless such funds are provided by host governments and the program becomes a cooperative program, FOA would prefer not to continue to support such a research project. In effect, FOA believes that the project has been an extension of the work of our U.S. Department of Agriculture—not part of a cooperative program—and that, if it is to be continued, a suggestion would be that it might be taken over by the Department of Agriculture.

In pursuance of my December 9 memorandum, FOA has sent a dispatch to each USOM Director in the Latin American countries concerned requesting him to determine by March 15 whether his country is interested in making a financial contribution to this project. As yet, no replies have been received.

If the Departments primarily concerned with U.S. security interests are now of the opinion that the project must be continued because of its significant importance to U.S. security, and if the Latin American countries concerned indicate that they will contribute to a fair share of the cost, FOA will then consider continuing the financing of the project in FY 1955. At this time, however, FOA's position remains that it does not intend to finance the project after June 30, 1954 and that, in the meantime, it will continue to seek for an orderly transition of its present responsibility—FOA's view being that the Department of Agriculture's interest—as in the past with this same project—is paramount.

Finally, I should like to note that FOA is continuing in FY 1955 to participate with other interested Latin American governments in rubber research and development on a cooperative basis. Such projects—provided they are sound from an economic and technical standpoint—will be continued in Peru, Brazil, Colombia, Bolivia, Haiti, and Guatemala.

Any further comment you care to make would be greatly appreciated.

Sincerely yours, HAROLD E. STASSEN

ARA/REA files, lot 57 D 597

Memorandum of Conversation, by the Director of the Office of Regional American Affairs (Cale)

[WASHINGTON,] April 9, 1954.

[Subject:] The Question of Changing the Nature of the Technical Assistance Program in Latin America

[Participants:] IIAA—Messrs. Hardesty,[1] Hill,[2] Floyd,[3] Burnett[4] and Couse[5]
USIA—Mr. Johnson[6]
ARA—Mr. Holland
EDT—Mr. Frank
AR—Mr. Cale

Mr. Hardesty produced an agenda (copy attached)[7] which he said had been drawn up to facilitate discussion of the matters which he thought should be considered.

[Here follows discussion by Mr. Hardesty concerning the terms of reference within which FOA/IIAA considered itself to be operating.]

At Mr. Hardesty's suggestion, Mr. Hill reviewed the history of the Institute's programs since they were begun in 1942. He concluded by saying that he believed that in some cases the technical assistance which the Institute is now furnishing is in excess of the financial capacity of some of the countries to utilize. He illustrated by saying that it is of doubtful benefit to teach a poor farmer how to use a steel plow unless he has the ability to purchase such a plow. Mr. Hill also said that he believes that serious consideration should be given by the United

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[1] Marion N. Hardesty, Acting Regional Director, Office of Latin American Operations, Foreign Operations Administration.

[2] Rey M. Hill, Vice President, Institute of Inter-American Affairs.

[3] John C. Floyd.

[4] John G. Burnett.

[5] Robert R. Couse.

[6] Presumably Charles F. Johnson.

[7] Not printed.

States to finding some means whereby credit can be provided in cases such as these to permit the farmer to make the needed purchase and that further thought should be given to providing credit to stimulate the local manufacture of such items as plows where this would further the utilization of the "know how" now being provided under the technical cooperation program. He added that he did not believe that we should make any material expansion in the level of grant aid that we are extending to Latin America. Mr. Hill also pointed out that technical assistance activities might themselves be expanded so that in addition to the emphasis now being given to technical assistance in agriculture, education and health and sanitation more would be done in providing technical assistance to industry, in improving government services, etc.

Mr. Burnett then discussed the legal aspects of development assistance in Latin America. This boiled down to the following:

There is authority in the present Mutual Security legislation for engaging in the following types of activity in Latin America:

1. Providing technical assistance.
2. Providing economic development assistance.
3. Disposing of United States agricultural surpluses under conditions such that the local proceeds obtained from the sale of the surpluses in a foreign country can be utilized for economic development purposes.

The principal, if not exclusive reason, why the economic development authority exists, insofar as the Latin American area is concerned, is the fact that it was needed in order to permit the carrying out of a program of this nature in other areas of the world. Some slight use of the economic development assistance authority was nevertheless made this year in connection with the economic aid program for Bolivia. Furthermore, the Mutual Security legislation for Fiscal Year 1955 which has recently been introduced into the Congress contains all of the aforementioned authorities. It also contains, as does the present legislation, a provision permitting the transfer (up to 15 per cent this year) of funds as between areas of the world. Given the size of the funds being requested for some of the other areas of the world and, assuming that there will be funds that can be transferred from these areas, FOA could carry out a materially larger program in Latin America than it is now conducting.

In view of the time that had been taken up by the foregoing discussion, the report on the 1955 budget of the IIAA by Mr. Floyd was omitted, at Mr. Hardesty's suggestion.

Mr. Hardesty then requested that Mr. Johnson repeat for the benefit of the State Department representatives a statement which he had made to Mr. Hardesty before the meeting. Mr. Johnson pointed out that personnel in the United States information program had at one time all been in the Department of State but that following the change of administration after the last elections a decision had been made which separated operations and policy formulation in this field, with operations personnel leaving the Department and policy making personnel and responsibility being kept in the Department. Mr. Johnson then said that the Department of State drafts policy papers for USIA, that in general these are good policy papers but that they often arrive late and furthermore do not always fully take into account certain operating problems that are encountered in putting them into effect. He expressed the view, therefore, that personnel of USIA should participate in the drafting of the policies in this area.

Mr. Hardesty then stated that IIAA believed that it would also be helpful if it could help participate in the formulation of policy with respect to the technical cooperation and economic development programs. He mentioned in this connection the committee within FOA which Mr. Stassen has recently established to coordinate FOA's views as to United States policy for the Rio economic conference.[8]

Mr. Hardesty said that he believed that the policies which have heretofore been followed by the United States in respect to economic cooperation with the Latin American countries will not be good enough for the Rio meeting. He expressed the view that there is a need for a restatement of United States objectives toward Latin America, with special emphasis on economic matters. He also said that he had just been informed that he was expected to appear on Monday, April 12, before the House Foreign Affairs Committee in support of the Mutual Security Program for Latin America for Fiscal Year 1955. He then inquired whether it would be possible for the Department to supply him with the general framework within which he might make his comments before the Committee. He indicated that he believed it only fair to the Congress that he inform the Congressional committees of any changes that might be contemplated in United States economic policy toward Latin America insofar as they might affect the Mutual Security Program.

Mr. Cale pointed out that the regional justification which has already been prepared for the Mutual Security Program for Latin America for Fiscal Year 1955 did appear to set the framework within which Mr. Hardesty might make his statements, unless a change in policy was contemplated. He also expressed the view that any statement made by Mr. Hardesty should be drafted in such a way as not to arouse Latin American expectations beyond our ability to meet them. Mr. Cale also suggested that it might be preferable, even if any change is contemplated, to discuss such a change with the appropriate committees, off the record, and to wait to announce it until the Rio conference. Mr. Hardesty again indicated that he believed that a change of policy was needed and that he should be able to make some statement concerning it.

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[8] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (IA-ECOSOC), popularly referred to as the Rio Economic Conference, held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation relating to the conference, see pp. 313 ff.

Mr. Holland agreed to provide Mr. Hardesty with a statement that should establish the general framework of Mr. Hardesty's comments before such time as Mr. Hardesty might need to appear before the Foreign Affairs Committee.

Eisenhower Library, papers as President, Whitman file, NSC records

Memorandum of Discussion at the 202d Meeting of the National Security Council on Thursday, June 17, 1954 [1]

TOP SECRET EYES ONLY

The following were present at the 202d meeting of the Council: The President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Secretary of Defense; the Director, Foreign Operations Administration; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Attorney General (for Item 3); Assistant Secretary Anderson for the Secretary of Commerce (for Items 1 and 2); Assistant Secretary Siciliano for the Secretary of Labor (for Item 5); the Director, Bureau of the Budget; Assistant Attorney General Barnes (for Item 3); Assistant Secretary of Defense Hannah (for Item 5); Walter S. Delany, Foreign Operations Administration; Assistant Secretary of the Army Milton (for Item 5); Herbert N. Blackman, Department of Commerce (for Items 1 and 2); Irving Kramer, Foreign Operations Administration (for Items 1 and 2); General Twining for the Chairman, Joint Chiefs of Staff; the Chief of Naval Operations; the Director of Central Intelligence; Robert Cutler, Special Assistant to the President; the Deputy Assistant to the President; the White House Staff Secretary; Bryce Harlow, Administrative Assistant to the President; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the chief points taken.

[Here follows discussion of matters relating to COCOM and United States export controls of strategic commodities.]

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[1] This memorandum was drawn up by S. Everett Gleason, Deputy Executive Secretary of the NSC, on June 18.

3. *Effect on national security interests in Latin America of possible anti-trust proceedings* (NSC Action No. 805; [2] Memo for NSC from Executive Secretary, same subject, dated June 1, 1953 [3])

Mr. Cutler reminded the Council that by its action a year previously the Department of Justice had refrained from instituting its anti-trust suit against the United Fruit Company, on the grounds of national security. The year had now elapsed, and as the Council had directed, the Attorney General was again raising the problem. Mr. Cutler called on the Attorney General to give his views, and then asked to be excused from participation in the Council's consideration of this subject in view of the connections of the Old Colony Trust Company with the United Fruit Company.

The Attorney General then asked Judge Stanley Barnes to read to the Council a letter [4] on this subject addressed to it through Mr. Cutler (copy filed in the minutes [5] of the meeting). This letter described in some detail a series of conferences between representatives of the Department of Justice and representatives of the United Fruit Company. The letter also set forth the terms of a proposed settlement of the issue by a consent decree. The United Fruit Company, however, still insisted that it was not guilty of any violations of the anti-trust laws, and had refused to consider a solution by consent decree unless the Government revealed in advance the evidence it possessed of violations by the United Fruit Company of the anti-trust laws. The letter ended by raising the question whether the Department of Justice should or should not now proceed to institute proceedings against the United Fruit Company. The Attorney General added that the Department of Justice wished to go ahead with the suit if the Council had no objections on grounds of national security.

Secretary Dulles said that the Department of State saw no reason why the Department of Justice should not proceed forthwith to institute the suit. Secretary Wilson questioned Judge Barnes as to the precise violations of the law allegedly committed by the United Fruit Company, and Judge Barnes provided several illustrations. While Secretary Wilson still doubted the advisability of proceeding with the suit at the present time, the President expressed the opinion that the suit should be instituted if, as seemed to be the case, the United Fruit Company had violated the law. Secretary Dulles repeated his similar view, and added that on balance it might be positively advantageous to U.S. policy in Latin America if the suit were instituted. Many of the Central American countries were convinced that the sole objective of United

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[2] See footnote 5, p. 196.

[3] This memorandum transmitted the NSC Planning Board report, p. 191.

[4] Not found in Department of State files.

[5] Presumably a verbatim record of NSC meetings not further identified.

States foreign policy was to protect the fruit company. It might be a good idea to go ahead and show them that this was not the case, by instituting the suit. . . .

Mr. Allen Dulles said that given a little more time, the Central American states would do Justice's job for it. While he feared that if the Department of Justice announced the suit in the next few days the results might tend to support the position which President Arbenz had taken in Guatemala, this would probably not be so a month from now, by which time the situation in Guatemala would have been clarified.

The National Security Council:

a. Discussed the subject on the basis of a report by the Attorney General pursuant to NSC Action No. 805-*b* on the results of his negotiations for the elimination of practices deemed inconsistent with U.S. anti-trust laws.

b. Agreed that considerations of national security do not justify further postponement of the proposed anti-trust proceedings beyond the period (estimated at about a month) required to prepare the actual filing of this suit.

Note: The action [6] in *b* above, as approved by the President, subsequently transmitted to the Attorney General.[7]

[Here follows discussion relating to the military situation in Southeast Asia and reserve mobilization requirements.]

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[6] NSC Action No. 1159.

[7] The Department of Justice filed an anti-trust suit against the United Fruit Company on July 2, 1954, at New Orleans (814.054/10–1454). See also Mr. Sparks' memorandum, Dec. 3, 1954, p. 262.

U/MSA files, lot 56 D 551, "Latin America"

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)

CONFIDENTIAL [WASHINGTON,] July 20, 1954.

Subject: Work of FOA and the Department of Commerce on Investment Opportunities in Latin America

Participants: Governor Harold E. Stassen, Director of Foreign Operations Administration
Assistant Secretary Henry F. Holland

I suggested that the Governor let me summarize my views on his proposal of an extensive program to achieve two ends in Latin America.

1. Discovery of investment opportunities and securing U.S. investors for them.
2. Analysis of obstacles to an increased influx of U.S. capital into Latin America.

The objections I stated were:

1. His efforts would be cumulative of programs conducted by the Department of Commerce and the Department of State.

> (*a*) Commerce has published an excellent work on obstacles to private investment in Latin America. They should be better prepared than any other agency to keep that study up to date.
>
> (*b*) Commerce has long offered a service of bringing investment opportunities in Latin America to the attention of the U.S. public.

2. The program in many capitals of Latin America would duplicate services available on investment opportunities through well prepared private sources such as investment houses, banks, chambers of commerce, and similar organizations.

3. The program would be affirmatively prejudicial to our foreign policy in Latin America at this time because:

> (*a*) Private capital is not entering Latin America today extensively because prospective investors are not accorded the protection of contract and property rights, assurances of sound monetary policies and of opportunities to earn a reasonable return on their investments which are conditions precedent to the entry of a reasonable prudent investor. If, while these conditions prevail, we persuade a large number of small U.S. investors to go into Latin America we will create problems that will severely strain our relations. Latin America today is a place where a well informed investor who can give adequate attention personally or by a trusted proxy to his business can make a good profit. On the other hand, there are a number of areas where the small investor who relies on absentee management will almost surely find himself in substantial difficulty.
>
> (*b*) We are trying hard to persuade Latin American Governments to institute those policies and local conditions that will cause private capital, particularly their own, to invest itself in projects that will strengthen their economies. Generally, in each of the countries there is enough domestic private capital to meet the development needs of the countries. Because of lack of the basic assurances required by private investors, this domestic capital is either sent out of the country or invested in real estate. If we now start a program to encourage small U.S. investors to enter Latin America in large numbers our efforts to solve the basic problem mentioned above will be largely nullified.
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> In other words, Latin Americans are reluctant to invest their capital in productive enterprises in their own countries. They are reluctant to do so because they know that local conditions are such that their investment might be lost. Often they are entirely right. We are trying to get the local governments to see that until they improve local conditions they cannot expect private investors to risk their capital. We cannot very well at the same time be conducting a campaign to persuade numerous small U.S. investors to enter the same investment markets.
>
> (*c*) The accusation is made against us in Latin America that the United States must find homes abroad for large amounts of capital which cannot be invested here. It is said that our interest in creating conditions in Latin America favorable to the investment

of private capital are motivated by this selfish purpose, and not by any desire to strengthen their economies. The proposed FOA program would lend credibility to this argument.

When I concluded the statement outlined above, Governor Stassen asked me whether I thought the tendency in Latin America was toward or away from private enterprise, I replied that the trend was toward private enterprise. I pointed out the situation in Peru, the growing belief in Brazil that its oil industry will never prosper until private enterprise is admitted; the spectacular results of private enterprise in Venezuela, and the new trend in Mexico.

He asked me if I was satisfied with the labor situation in Latin America. I replied that I was not; that I felt that we needed more labor reporting officers in the embassies, men who had the language ability and other capacities necessary for them to exert influence on the local leaders.

Governor Stassen then said that he felt our conference had pointed out fundamental differences of opinion on basic policy concepts which made it easy to understand how we could disagree on the wisdom of a particular program. He went forward to enumerate four basic differences of opinion which he felt existed between us:

1. He felt that I was well satisfied with wages and living conditions generally in Latin America whereas he felt that they should be considerably improved.

I stated that he must have misunderstood me—that I shared his view that both wages generally and living conditions should be improved throughout Latin America.

2. He felt that, contrary to my belief, this was the time to encourage a large number of small investors to go to Latin America. He recognized that a good many of them might "lose their shirts," but felt that the net result of their entry would be beneficial.

I stated that on this point we did disagree.

3. He felt that I opposed the establishment of organized labor unions in Latin America, whereas he felt that it would be a good thing.

I stated that he must have misunderstood; that it was my personal belief and the policy of the Department that extension of the organized labor movement to Latin America would be beneficial to this country as well as to the Latin American countries.

4. He felt that I opposed treatment of economic problems in the hemisphere on a multilateral basis. He said that the policy of the Department of State and of the Treasury was to insist on a modern day colonial approach, under which we insisted that the various Latin American countries deal bilaterally with the United States but without any extensive trade or economic relations among themselves. He drew parallels from English and Spanish history regarding such a policy.

I stated that I felt he misunderstood the Department's policy; that we favored such multilateral relations between the Latin American countries.

Mr. Stassen gave me the impression when I left that he still felt there were basic and fundamental differences of opinion between us. Despite this, the meeting was cordial and I was happy to have the chance to explain our views.[1]

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[1] Assistant Secretary Holland forwarded a copy of this memorandum of conversation to Secretary Dulles under cover of a memorandum dated July 23, 1954. In the July 23 memorandum, Holland requested the Secretary to sign an attached draft letter to Governor Stassen asking that he continue to hold up the proposed FOA program to stimulate U.S. investments in Latin America. (811.05120/7-2354) The Secretary signed the letter on July 28, and it went out on that date. (811.05120/7-2854)

102.220/8-2054

Memorandum by the Deputy Director of the Office of South American Affairs (Bennett) to the Assistant Secretary of State for Inter-American Affairs (Holland)

CONFIDENTIAL [WASHINGTON,] August 20, 1954.

Subject: Implementation of the Eisenhower Report

It has seemed to me that it might be useful as I depart for the National War College to prepare a review of the progress on implementation of the Report and recommendations made by Dr. Milton Eisenhower following his South American tour of June and July 1953. It is now just over a year since the return of the Eisenhower mission from South America, and the Congress is now completing its session during which consideration was given to a number of the matters raised in the Report. This seems a good time to take stock.

The Eisenhower Report to the President was dated November 18, 1953 and released by the White House on November 20. Shortly thereafter, the President indicated to members of the Cabinet and heads of certain other agencies his "general approval" of the Report and his request that action be taken promptly to implement its recommendations which were within present policy and that thorough consideration be given promptly to those recommendations which would require new policy decisions. The Secretary was requested to receive the comments of other Departments and agencies and to correlate plans for implementation of the recommendations. Dr. Eisenhower submitted to the President on January 11 of this year a confidential supplement to his Report with recommendations on certain specific problems in individual countries. In transmitting this supplemental report to the Secretary of State, the President commented, in part, "I am struck by the fact that, in a number of cases, a very small loan investment or grant on our part might reap very definite and extensive advantages for us."

There is set forth below in some detail the action taken on the various recommendations of the Report (Tabs I and II). There are included pertinent comments on the Report and its recommendations from other members of the Cabinet and heads of agencies.

There is attached a copy of the telegram [1] which was sent by General Smith to the Secretary during his attendance at the Inter-American Conference at Caracas in March. This telegram reported that on March 5 the Cabinet approved in principle a memorandum (also attached)[2] presented by General Smith as indicative of the Administration's determination to implement the Eisenhower Report. The program outlined in the memorandum included several items not actually mentioned by Dr. Eisenhower, but all were in the spirit of his Report.

Throughout this paper I have sought to check carefully with officers of the Department and elsewhere in the interests of accuracy as to facts and figures. The opinions and conclusions stated are my own.

Summary Conclusions

In sum, I believe that substantial progress has been made in implementing the Eisenhower Report. There has been no dramatic directive sweeping all previous policies before it but that was never contemplated. Aside from a general policy statement, foreign policies in practice are made up of the minutiae of practical decisions, particularly when budgetary problems and Congressional appropriations are involved in the procedure. With respect to the impact of the Eisenhower Report, the general policy has been laid down, and day-to-day decisions have proceeded during recent months to fill out that framework.

There is a generally excellent record with respect to going forward on the recommendations concerning specific problems discussed in the supplemental report. There has been improvement in appropriations for projects and programs along the lines recommended by Dr. Eisenhower in his section on strengthening understanding and mutual respect. Additional efforts need to be made, and still greater advances could be made with larger appropriations, especially in aid to American schools in Latin America and in the program for the exchange of students and leaders. We spend so little on these things in Latin America that increases which would be ridiculously small percentage-wise in comparison with expenditures in other areas and for other programs would loom very large indeed in this Hemisphere. In fact, the very smallness of some of these appropriations has made added difficulties in obtaining them. It is actually harder to get $135,000 for aid to American schools—and more detailed attention and scrutiny is given to it simply because it stands as a separate item in the budget—than to obtain a sum of several million dollars in much larger aid programs.

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[1] A copy of the referenced telegram, designated Tedul 25, dated Mar. 5, 1954, is attached to the source text, but printed separately, p. 302.

[2] A copy of the referenced memorandum, by Mr. Woodward, is attached to the source text, but printed separately under date of Mar. 2, 1954, p. 217.

Some progress has been made with respect to the recommendations for strengthening economic cooperation. The record is poorest here, however, and this is the area commonly agreed, and specifically underlined by Dr. Eisenhower, to be of primary importance at the present time and "the key to better relations" between the United States and the other American Republics. There are three economic issues which are paramount in Latin American thinking today:

(1) Our trade policy
(2) Our loan policy, and
(3) Our price policy.

Of these the third issue is, in my opinion, the least important just now since the Latin Americans themselves realize that their clamor, no matter how loud on this issue, is something less than realistic and since we have a good sound position to stand on even though it may not meet Latin American desires.

In my opinion, the United States trade and loan policies are the two matters on which our continuing lack of definite and clear-cut positions cause deep pre-occupation among our Latin American friends. These uncertainties contribute to increasing doubts and lack of confidence regarding our intentions and play into the hands of demagogic and communist elements who wish to destroy good relations between the nations of this Hemisphere.

In the loan field some progress has been made and the picture is brighter than a year ago; but the carefully worded and qualified statement on the Export-Import Bank policy which was made at Caracas—and how difficult it was to get agreement in Washington even on that—was decidedly not enough to meet the situation.

In the field of trade policy we are not better off than we were a year ago, before Dr. Eisenhower's clear and unequivocal presentation of the outstanding importance in our relations with Latin America of stable trade arrangements, with a minimum of mechanisms to permit quotas or increased duties. Indeed, in some ways the situation appears to have deteriorated. Domestic considerations must be given due weight, of course, but I am convinced that the maximum effort has not yet been made to convince American public opinion and the Congress on the vital significance of foreign trade to our welfare and that of our allies in the free world. We must intensify our efforts to find some methods, be it the subsidy route or whatever, through which we can take care of situations which affect usually defined and local industry problems in this country but which can play such havoc with the economy of a less diversified country depending on trade with us for the very basis of its existence. Peril points and escape clauses, no matter how "realistic" their acceptance may be in terms of domestic politics, simply provide a built-in mechanism to open up and nullify any trade agreement at any time. They mean that there can be no real stability in trade arrangements. To fall back on increased duties and restrictions is to walk open-eyed into the pit.

These two policies—trade and lending—are absolutely basic in our relations with Latin America today, and we need not expect other actions or programs or propaganda to compensate for the lack of them or to be able to do their work.

(*Note:* Since this paper is intended as a personal report for you and Dr. Eisenhower, I would suggest that it not be given distribution outside of ARA. If you should desire, I would, of course, be glad to prepare a report based on this paper more suitable for general distribution.)

[Annex—Tab I]

[Extracts]

I. RECOMMENDATIONS OF THE PUBLIC REPORT

A. STRENGTHENING UNDERSTANDING AND MUTUAL RESPECT

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B. STRENGTHENING ECONOMIC COOPERATION

Recommendation 1. "That the United States adopt and adhere to trade policies with Latin America which possess stability and with a minimum of mechanisms permitting the imposition of increased tariffs or quotas. I consider this matter of stability and consistency to be the outstanding requirement."

Action

a. There is no question but that the President agrees wholeheartedly with this recommendation of his brother. The Randall Commission report was in general agreement with it. One cannot overstress, however, the extreme pressures brought on the philosophy underlying this recommendation by domestic political situations. The President's original recommendation for a three-year extension of the Reciprocal Trade Act has been compromised with Congress on the basis of a one-year extension, which will leave our trade policies still in doubt at the time of the Rio Economic Conference, which is of such importance in our relations with Latin America.

b. The line has been held thus far against oil restrictions, and the rejection by the President of the Tariff Commission's recommendations for increased duties on lead and zinc will have excellent effects everywhere. A threat of increased duties on raw wool was averted through the plan (approved by Congress) to apply present duty receipts to relief of the domestic industry; however, because of the domestic political situation, numerous decisions made regarding agricultural commodities have gone against the Department's views.

c. The cases of products on which decisions adverse to good relations with one or more of the Latin American republics have been made in the past two years or are threatened include wool tops, long staple cotton, canned meat, wheat, linseed oil, tung oil, flaxseed, cheese and dairy products and oats.

d. The handling of our agricultural surpluses is a matter of major concern and preoccupation to such countries as Argentina and Uruguay.

. . . .

Recommendation 2. "That the United States adopt a long-range basic-material policy which will permit it to purchase for an enlarged national stockpile certain imperishable materials when prices of such materials are declining. . . . Such a policy would . . . be of immense benefit in protecting the long-term economic future of the United States, and would provide at least some degree of stability in world market prices of raw materials.

"I recognize that the implementation of such a policy would presumably have to await the time when United States fiscal resources are not severely strained by defense expenditures."

Action

a. Other than the stockpiling program, it appears that we do not have any long-range raw materials policy in this Government. The goals for stockpiling have recently been raised in some respects, and this may help us to meet urgent problems on specific commodities. A cabinet committee is studying the minerals situation.

b. We have continued to purchase Bolivian tin for the stockpile; this has been of vital assistance to Bolivia in her critical economic situation.

c. The decision was made in March to purchase 100,000 tons of Chilean copper for the stockpile; this relieved a critical situation in Chile.

. . . .

Recommendation 3. "That the United States carefully examine whether or not it would be appropriate to amend the present tax laws to remove existing obstacles to private investment abroad."

Action

a. That portion of the President's budget message [3] dealing with removal of tax obstacles to private investment abroad would have been of less benefit to Latin America, which already has the Western Hemisphere Trading Act, than to other areas of the world, but it would have been helpful to some United States corporations operating in Latin America. Customs simplification would also have been a matter of relief to many United States corporations operating abroad, including Latin America. Both these measures were lost in the Congress. Other incentive provisions in the trade and investment field have also failed of adoption. In sum, except for certain technical improvements, little has been accomplished in the tax field.

. . . .

Recommendation 4. "Public loans for the foreign-currency costs of sound economic development projects . . . it seems essential that the United States maintain a national lending institution to make sound development loans which are in our national interest, but which might not be made by an international agency." . . . The Eximbank should consider raising more of its funds from private capital market.

Action

a. Language regarding a rejuvenated role for the Eximbank was worked out for use by the Secretary at the Caracas Conference. That position received Cabinet approval. The Executive's action and the passage of the Capehart bill [4] to reorganize the Bank with a view to its greater autonomy and to increase its lending authority by $500 million have reassured Latin Americans to some extent that the Eximbank will have a proper role. However, the proof of the pudding is in the eating, and since the Secretary's statement at Caracas in early March only $25.2 million have been loaned ($15 million was to Brazil to finance purchases of U.S. wheat). Actually, there is still vigorous pulling and hauling mong the departments and agencies regarding the Eximbank, and opinions differ as to whether the position being worked out by the Sub-cabinet committee preparing for the Rio Economic Conference will offer sufficient reassurances to the Latin Americans regarding our genuine interest in their economic development.

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[3] Apparently a reference to the annual budget message for FY 1955, delivered to Congress, Jan. 21, 1954; for text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954* (Washington, 1960), pp. 79–192.

[4] Reference is to Senate bill 3589, introduced on June 11, 1954, by Senators Homer E. Capehart (R.–Ind.) and Burnet R. Maybank (D.–S.C.). The bill was approved on Aug. 9, 1954, as the Export-Import Bank Management Act (Public Law 570); for text of the act, see 68 Stat. 677.

b. Comment of the Secretary of the Treasury: [5] "Development loans should be made by the Export-Import Bank only in special cases of overriding national interest . . . The use of guaranties by the Export-Import Bank appears justified because they are charged against the Bank's authorized lending authority. They are not a charge against the Government's cash budget except in case of default by the borrowers. It is our belief that by the use of guaranties, together with carefully worked out provisions for requiring the applicant for loans to put some of his own money at risk, the Export-Import Bank can go a long way in meeting legitimate needs."

c. Comment from the Secretary of Commerce: [6] "Dr. Eisenhower's statement of recommendations with respect to public lending by International Bank and the Export-Import Bank are sound, in my judgment."

Recommendation 5. "That the United States stand ready to give appropriate technical help to the Latin American countries that express a desire to work out more orderly ways of determining how their resources, including their borrowing capacity, can make the greatest contribution to their economic development . . . The purpose of technical assistance in this area should be to establish priorities of need, to develop project plans in ways that satisfy lending institutions, and to do this within the credit worthiness of each nation."

Action

a. This recommendation by Dr. Eisenhower developed from his view that use might be made of a device similar to the United States Joint Commission with Brazil, but organized with proper safeguards. In view of the Brazilian experience, the Department has been quite leery of going into this type of project again, although certain types of technical assistance in this field could undoubtedly be made available and would be needed along the usual lines if Eximbank operations were expanded. In connection with planning for Rio, however, this device has been recognized as useful in exceptional cases, where both the United States and other countries fully understand and accept the financial implications involved.

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[5] Extracted from a memorandum by Secretary Humphrey to President Eisenhower, dated Jan. 15, 1954, a copy of which is attached to a memorandum by President Eisenhower to Secretary Dulles, dated Jan. 16, 1954, not printed. (120.220/1-1654) All further comments by Secretary Humphrey quoted in this annex are from his memorandum of Jan. 15.

[6] Extracted from a letter from Secretary Weeks to Secretary Dulles, dated Jan. 15, 1954; a copy is attached to file 120.220/1-1654.

Recommendation 6. "That, in very unusual circumstances, the President of the United States be in a position to make grants of food from our surplus stocks . . . appropriate to require the government receiving the grants to set aside counterpart funds."

Action

a. Food grants were made to Bolivia in FY 1954 in the amount of $5,000,000. Other grants will presumably be made during the current fiscal year.

b. Food grants have been discussed in connection with the Chilean problem and that matter is under study now.

c. Brazil's urgent need for 300,000 tons of wheat was accommodated by arranging an Eximbank credit to cover 200,000 tons and accepting strategic materials in exchange for 100,000.

d. Dried milk and butter oil are being made available to Peru at a price greatly reduced from the domestic level. This will enable an increase in milk production in Peru.

. . . .

Recommendation 7. "That the technical cooperation program in Latin America be expanded. . . . "We should continue the 'servicio' type of administration . . . "The consultative part of the task should, wherever possible, be assigned to an American university . . . "In each 'servicio' project, the policy of the United States should be to withdraw . . . when the local government is able to carry on." The technical cooperation program in Latin America should not be submerged under other vast emergency programs being carried out by FOA but should retain its separate identity.

Action

a. The budget request for technical cooperation programs in Latin America for FY 1955 was $23,500,000, approximately the same as last year. Although allocation among areas has not yet been made (the total request of $112 million on a world-wide basis was reduced by Congress to $105 million), this figure for Latin America appears to be safe. An additional $5 million for Latin America was appropriated on the initiative of Senator Smathers.[7] In addition, a $9,000,000 program for grant aid for Bolivia was approved.

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[7] George A. Smathers (D.-Fla.).

b. Funds were appropriated for the Inter-American Highway and the Rama Road, although these projects did not figure in the Eisenhower Report.

c. A special FOA meeting, with Mr. Stassen presiding, was held at Lima in January to develop detailed plans for strengthening Latin American programs along the lines recommended by Dr. Eisenhower.

d. Comment of the Secretary of Commerce: "I emphatically agree with this . . . about the most effective long term assistance which the United States can render . . . deficiency of know-how and experience is one of the most severe bottlenecks. I believe that a considerably wider approach to this problem can be a part of our policy toward Latin America. . . . push technical cooperation as far and as fast as the facts in each case will properly support."

e. Comment of the Secretary of Agriculture: [8] "The report gives particular recognition to the 'servicio' . . . experience of the Department of Agriculture, however, has shown that the method for rendering technical assistance varies greatly as between countries . . . careful judgment should be exercised by administrators in the choice of the proper techniques for each particular project." (*Note:* Agriculture has always been rather cool to the "servicio" technique, since it in many cases superseded or absorbed Agriculture's own bilateral arrangements.)

f. Comment of the Director of FOA: [9] "Plans for expanding the use of United States universities and colleges are in final form." [10] This program has been going ahead in recent months.

Recommendation 8. "That we continue our vigorous support of the various technical agencies operating as an integral part of our activities in the Organization of American States" particularly IA-ECOSOC.

Action

a. This is being done and a build-up of the IA-ECOSOC is in process.

b. An additional $500,000 (present rate $1 million) has been approved by Congress for the United States contribution to the technical cooperation program of the Organization of American States.

Recommendation 9. "That our Government also continue to support the work of the International Monetary Fund . . . United Nations agencies such as the Economic Commission for Latin America."

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[8] Extracted from a letter to President Eisenhower from Secretary Benson, dated Jan. 15, 1954; a copy is attached to file 120.220/1-1654.

[9] Extracted from a memorandum by Mr. Stassen to Secretary Dulles, dated Jan. 11, 1954. (120.220/1-1154)

[10] The statement by Mr. Stassen actually reads as follows: "I am pleased to be able to report that plans for expanding the use of United States universities and colleges are in final form and that this, too, will be a major topic for discussion at Lima."

Action

a. This is being done.

[Annex 2—Tab II]

II. Recommendations With Respect to Specific Country Problems

A. VENEZUELA

Recommendation

"Perhaps the most serious irritant in United States relations with Venezuela we found was Venezuelan dissatisfaction over its inability to purchase military equipment for its armed forces from the United States in the amounts or under the terms desired . . . preferred to pay outright . . . than to be the recipient of grant assistance . . . quantity quite insignificant . . . European countries have consistently offered equipment to Venezuela at prices cheaper than the United States . . . with more rapid delivery and better payment terms. Growing resentment in Venezuelan Government circles . . . threatening continued existence of our military missions.

"It should not require a great effort to take the small steps necessary . . . the Secretary of State and the Secretary of Defense should give consideration to this situation with a devising expeditious purchase and delivery arrangements.

"The Administration should continue vigorously its opposition to measures which would change the present basis on which Venezuelan oil enters the United States."

Action

Comment of the Defense Department on March 22, 1954: [11]

"The chief Venezuelan complaint has been the cash upon delivery terms required by the law (MDAA). As a result of a finding by the Director of Foreign Operations on 27 January 1954, Venezuela now has the same status as Canada, and the three military departments are permitted to deliver stock items to Venezuela with payment due sixty days after delivery . . . Priority of delivery and availability . . . is based on policy that military assistance should go first to nations that are fighting or are liable to be the first to fight . . . However, effort is being made within the priorities assigned to make available and expedite the delivery of equipment to Venezuela and other Latin American countries."

It is believed that there has been improvement over the situation of a year ago with respect to purchase and delivery arrangements, as well as better understanding on the part of Venezuelans concerning unavoidable delays in the delivery process. The circumstances of the transfer of certain Venezuelan arms purchases (tanks) to Europe primarily for reasons of top-echelon graft, after the transaction had been virtually completed here, have become widely known and much criticized in Venezuelan military circles. This should serve to reduce abuses in purchasing procedures in the future, and should redound to our benefit.

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[11] Extracted from a letter to Mr. Waugh from Vice Admiral Davis, dated Mar. 22, 1954. (120.220/3-2254) All further comments in this annex attributed to the Department of Defense are from Vice Admiral Davis' letter of Mar. 22.

Efforts to change the basis of oil imports by Congressional action, which would violate the trade agreement with Venezuela, one of our largest customers, have been unsuccessful thus far. The pressure from coal, independent oil producers and other domestic interests continues heavy, however. An inter-departmental committee is currently studying the problem.

B. COLOMBIA

Recommendation

"The Secretaries of State and Defense should work out an equitable and sympathetic formula for the settlement of the Colombian reimbursement problem (for expenses in Korea) so that this matter can be negotiated with the Colombians and this source of potential trouble removed."

Action

The Cabinet on March 5, 1954 agreed that the charges for Colombian expenses in Korea should be held in abeyance until the outcome of the proposed legislation to implement an NSC decision to permit the waiver of all or part of reimbursement obligations.[12]

C. ECUADOR

Recommendation

That the Export-Import Bank act favorably on Ecuador's long-pending application for an Eximbank loan for $2.5 million for improvement of the Quito and Guayaquil airports. "The personal safety and the defense security of our citizens would obviously be served through adequate loan assistance to Ecuador in the improvement of her airports. . . . A shift of the project to the World Bank with the attendant delays will cause harm to United States-Ecuadoran relations."

Action

On January 8, 1954 the Eximbank authorized a credit of $2.5 million to assist in financing the development of the two airports. After insisting for months that it handle the airport loans and threatening that action by the Eximbank would imperil, if not kill, Ecuador's chances for larger loans for highway construction, the World Bank on February 10 made a loan of $8.5 million for a road construction program in Ecuador to aid agricultural development. This was the full amount that had been requested for that project, although another application for a port project has been rejected for the present.

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[12] For documentation relating to this subject, see volume XV.

D. PERU

Recommendation

Discussed Peru's friendship for the United States and sound economic policies of recent years, and Peruvian feelings of neglect over small amount of United States loan assistance to country's economic development. Pointed out that decline of non-ferrous metals prices and possibility of United States restrictions on lead and zinc gave Peru much concern over possibly heavy pressures on her free economy. Recommended the Toquepala project as a good business proposition, a highly desirable development from the strategic point of view and as in the interest of good United States relations with Peru.

Action

When Peru's economy did come under pressure in late 1953 and early 1954, causing a sharp decline in the value of the sol, action was taken quickly in Washington to alleviate the situation. The International Monetary Fund, in a tribute to Peru's essential soundness, took action and authorized a standby credit to Peru of $12.5 million,[13] 50% of her quota, a percentage rate exceeded only once in IMF history. The United States Treasury signed a bilateral stabilization agreement[14] for the same amount, and the Chase Bank contributed to the solution with a loan of $5 million to Peru. These actions so strengthened the sol that to date Peru has not found it necessary to draw down any of the funds.

Settlement has been reached between Peru and the British on defaulted sterling bonds, which makes Peru eligible for World Bank loans.

Comment from the Defense Department on the original Toquepala project:

> "appears to be a sound business proposition and desirable from a strategic point of view . . . need for the development of new copper sources."

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[13] For additional information on this subject, see the International Monetary Fund, *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1954* (Washington, 1954), pp. 90, 107.

[14] For text of an announcement by Secretary Humphrey, dated Feb. 18, 1954, concerning the signing of a stabilization agreement between the United States and Peru, see *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1954* (Washington, 1955), p. 289.

No final action has been taken by this Government on the Toquepala project. The Peruvian Government and American Smelting & Refining have not yet reached agreement on terms of a concession contract. In Washington the Eximbank, while ready to lend $60 million to match an equal amount to be made available from defense procurement funds, felt that it could not take on the full $120 million when the Defense Materials Board cancelled its earlier certification of the project. The Treasury Department has been opposed to public loans for Toquepala.

After several months of relative inactivity, however, the project is stirring vigorously again. AS&R now states it expects shortly to arrive at satisfactory terms with the Peruvians; and on August 5 AS&R submitted to the Department a revised proposal which provided for a larger total project of $196 million, with private interests prepared to put up 50% of this amount. This calls for a scaling down of the Eximbank participation to $98 million. The Department favors this proposition and hopes for Eximbank's approval before the Rio Economic Conference. Treasury's attitude on this revised project is not yet known.

The President's decision to reject the Tariff Commission's recommendation for increased duties on lead and zinc is a matter of first-rate importance to Mexico and Peru in view of the large dollar earnings received by those countries for those products. Bolivia will also welcome the decision.

E. BOLIVIA

Recommendation

"Our extension of aid to Bolivia had immediate success . . . through the strengthening of moderate members of the Government . . . We should continue our emergency efforts in our own national interest to help Bolivia strengthen and diversify her internal economy . . . necessity for a minimum of $15 million in aid for the coming fiscal year.

"Now that we have begun this program, we must not abandon it in midstream . . . avoid a situation which runs the very real risk of bringing the Communists into political ascendency. . . . If the price of tin does not improve, Bolivia will need some aid for five years while she is expanding her farm production."

Action

Decision to extend to Bolivia an emergency economic aid program under the Mutual Security Act, the only one in Latin America, was made in September 1953, after Dr. Eisenhower's visit there and with his strong support, but before the publication of his Report. The total program for fiscal year 1954 came to $14.5 million and included food grants from surplus stocks and the more than doubling of the technical cooperation program in agriculture.

Consistent with the Eisenhower recommendation, the Department recommended in the draft foreign aid program for FY 1955 [15] a $15 million dollar grant, $11 million of which would be used primarily for purchase of goods to meet current consumption needs and $4 million for equipment and supplies to assist in diversifying and increasing Bolivia's agricultural production. Governor Stassen considered it advisable to reduce the program to $9 million for submission to Congress but agreed that, should the Bolivian situation so warrant, additional assistance would be made available under the proposed surplus agricultural disposal program. The $9 million figure was approved by the Congress in the foreign aid appropriation bill.

The Department has given considerable thought to the possibility that, unless the price of tin improves, Bolivia will need some aid for perhaps five years. The exact amount will depend on whether or not Bolivia is able to obtain loans for development purposes. Development loans would enable Bolivia to apply foreign exchange, now being used to purchase capital goods, to import minimum needs for current consumption. By FY 1956 the need for food imports is expected to decrease somewhat. Aid to finance the economic development program, however, will be required for several years. The Bolivians have indicated a preference for loan financing of their development programs.

Comment from the Eximbank:

> "The circumstances in Bolivia which led to the decision to extend aid in the form of grants limit the capacity of Bolivia to undertake the obligations of large additional loans."

Since the issuance of the Report, the Eximbank has authorized a credit of $2.4 million,[16] in addition to loans over recent years totalling around $27 million, to finance the completion of the Cochabamba-Santa Cruz highway and the repair of equipment for use in maintenance and in building tributary roads. The main highway is already carrying traffic and is scheduled to be formally inaugurated in September of this year.

Comment from the Department of Defense:

> "I agree with the necessity of providing emergency aid to Bolivia; however, I believe that such aid should not be continued on an indefinite basis . . . It is suggested that the United States assist in the development of a broader base for the Bolivian economy with particular emphasis upon foodstuffs production."

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[15] For documentation on this subject, see volume I.

[16] Reference is to an increase in a credit previously established in the amount of $16 million in favor of the Corporación Boliviana de Fomento; for information, see Export-Import Bank of Washington, *Seventeenth Semiannual Report to Congress for the Period July–December 1953* (Washington, 1954), p. 9.

Comment from the Treasury Department: [17]

"It is questionable that our emergency aid program should continue as long as five years while Bolivia expands her farm production. Realistic price incentives for their exchange reform and a halting of the inflation are the basic requirements."

F. CHILE

Recommendation

"Chile's rampant inflation and serious economic conditions have been brought on by gross mismanagement . . . culmination of inept and misguided policies came with the accumulation of 130,000 tons of unsold copper. . . . While not essential to our needs this copper can be a useful addition to our stockpile, and we should be prepared to purchase it only under conditions which would contribute to a basic improvement in Chilean economic policies. We should not submit to political or economic blackmail."

Action

In March of this year, after lengthy negotiations with Chile, a cabinet decision was made to buy 100,000 tons of Chilean copper at the then market price, 30 cents a pound, for our national stockpile. The purchase was made on the strength of a renewal of Chile's promise not to sell copper to the Soviet Bloc, and to enact legislation providing for a single tax on copper in lieu of the present multiple system, return control over sales to the companies (this is considered an additional safeguard in preventing shipments to the Soviet Bloc), elimination of price fixing, and the establishment of a non-discriminatory exchange rate for copper. The promise to refrain from selling to the Soviet Bloc has been carried out. The other assurances were embodied in a bill presented by the Chilean Executive to the Congress on March 2 as an urgent measure. At this date the "urgent measure" is still being considered by the Chilean Congress, with the outcome unpredictable.

In the meantime, the Chilean Government has faltered from one crisis to another, and the national economy has continued to decline. The cost-of-living increased from May 1953 to May 1954 by more than 80%. No solution to Chile's grave problems appears in prospect, and there is no indication that Chileans themselves, despite brave words and innumerable promises, have yet determined to grasp the nettle involved in the hard decisions that must be made if Chile is to be put back on the road to sound policies. In the meantime, irresponsible demagogues and Communists make hay in Congress and before the public, and the Government becomes more and more a prisoner of its own political cowardice and general policy drift.

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[17] Extracted from a letter to Acting Secretary of State Smith from W. Randolph Burgess, Deputy to the Secretary of the Treasury, dated Feb. 22, 1954 (611.20/2-2254). All further comments in this annex attributed to the Treasury Department are from Mr. Burgess' letter.

Comment from the Treasury Department:

> "Although the danger of large sales to the Soviets seems lessened, the United States should in any agreement to buy copper at the market, require assurances on this as well as on fair treatment of the companies."

G. URUGUAY

Recommendation

"Uruguay considers herself our loyal and tried friend in the political councils of the Hemisphere and the world . . . of late they have developed something of a fixation of being neglected by the United States. Uruguayans tend to overlook the fact that they have not treated United States private economic interests particularly well in recent years, and they are greatly preoccupied over the possibility of United States tariff quota restrictions or other methods of trade control which would diminish the export to the United States of Uruguayan wool. They are also concerned lest our agricultural surpluses be used in such a way as to harm their markets . . .

"Uruguay's example of political democracy is one which it is in our interest to encourage in Latin America. While we should not fail to protect United States private interests . . . we should make every effort to assuage Uruguayan feelings of neglect and to work out methods of handling agricultural problems which would show adequate understanding of Uruguay's vital interests."

Action

Uruguay has recently taken to wearing a self-fitted halo, which makes cooperation with her difficult. Relations at the Caracas Conference were not particularly satisfactory in either the political or economic fields. Despite continued informal representations on our part, the Uruguayan Congress earlier this year, aroused over chronic meat shortages and fearful of domestic political consequences passed a law to regulate the meat packing industry which discriminates markedly against the United States-owned packing houses.

On the United States side of the ledger the countervailing duties imposed in 1953 to United States imports over Uruguayan wool tops (justified on the grounds of Uruguayan use of multiple exchange rates) remain in effect. They have, however, been substantially reduced, from 18% to 6% following a reduction in the Uruguayan exchange rate. Early in 1954 this Government decided that it could not carry out its obligations under GATT[18] to reduce certain duties on meat products because of our domestic beef situation. This decision was, of course, very disappointing to Uruguay and was regarded as a renege on a commitment by the United States.

United States agricultural surplus disposal policy, as reflected both in the present legislation and in plans for future legislation, embraces the principle that the disposal of United States surpluses will be carried out in such a way as not to displace exports of friendly countries. However, the Uruguayans have formally protested the United States sales of linseed oil from CCC stocks and have regarded it as dumping. (The United States price is approximately 16 cents and we recently disposed abroad at 6 cents.) Uruguayan concern over our surplus disposal program remains great.

H. ARGENTINA

Recommendation

"It is in our national interest to maintain and broaden the improvement in relations which has occurred . . . our primary aim should be to counter the Argentine tendency toward neutralism . . . and to align Argentina firmly on the side of the West. If we can develop in the Argentine Government a sense of understanding and trust . . . we may at some future time be able to exert influence which would lead to an improvement in Argentine attitudes with respect to the fundamental freedoms.

"We should not deceive ourselves as to the nature of the Government . . . or as to Peron's personalist and emotional type of leadership. We should seek to carry on relations with the Peron Government in an atmosphere of frankness and we should display a sympathetic attitude toward Argentine aspirations for economic development through the aid of United States private enterprise. We should seek to handle such domestic problems as the disposal of our agricultural surpluses and possible tariff increases on wool in such ways as to cause the least strain on our relations."

Action

Real progress has been made in improving relations between this Government and the Peron administration. Ambassador Nufer holds a position which has not been equalled by any United States representative since the beginning of the Peron regime; and the personal relationship established with Peron by Dr. Eisenhower has contributed immeasurably to a growth of confidence and trust in us on the part of the

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[18] Reference is to the General Agreement on Tariffs and Trade (GATT), concluded at Geneva, Oct. 30, 1947, and entered into force for the United States, Jan. 1, 1948; for text, see TIAS No. 1700 or 61 Stat. (pts. 5 and 6).

Argentine President. Fortified by these personal relationships, Peron has up to now not permitted the serious problems which remain between us, such as United States public dislike for Argentine internal policies and Argentine concern over United States agricultural policies, to interfere with his overall policy of *rapprochement* with the United States. The dangers in the basically personalist quality of Argentine policy under his leadership must not be disregarded, however, for we know that many influential Argentines in and out of the Government are less willing than Peron to submerge their traditional Argentine feelings of antagonism toward the United States or to overlook our numerous fundamentally divergent views on political and economic policies.

Beneficial results of improved relations with Argentina have included outstanding improvement in Argentine press treatment of the United States, cessation of official propaganda attacks on the United States in Argentina and the other Latin American countries, and a generally more sympathetic approach to United States policies and motivations (although they do not hesitate to be critical in the press and elsewhere of specific policies or actions). Peron has moved steadily toward a more positive identification with the West and has shown himself increasingly aware of the dangers of communist infiltration in Argentina and elsewhere in the Hemisphere. He seems anxious now to embark on a policy of broad, hemispheric action against communism, and Ambassador Nufer has recently proposed that we increase our cooperation with Peron, particularly with regard to communist and Hemisphere security matters. His recommendations are currently under study.

Sincere efforts are being made by Argentina to improve the atmosphere for foreign private investment; as a result there has been a marked resurgence of interest on the part of United States investors in Argentina. United States investments in Argentina, however, still face dollar remittance problems, due basically to the lack of dollar exchange.

The Argentines have been greatly pleased over their success in purchasing at Government auction in this country a steel mill originally constructed for Czechoslovakia; it will form an important component in their plans for an integrated steel industry. In June of this year the Eximbank approved an application (subject to the raising by the industry of certain additional financing by the company) for the financing of the purchase of a blast furnace by the Argentines for this project. An Eximbank mission has just returned from Buenos Aires after a survey of various economic development projects which United States firms are interested in undertaking.

President Eisenhower's call for further study of the proposal of the Tariff Commission to raise wool duties provided comfort to the Argentines, although the final decision is obviously of great concern to them. They were encouraged by his decision not to impose immediate restrictions on tung oil imports; nevertheless they are still greatly preoccupied over future United States policies with respect to United States import restrictions on these and other items. Argentina has vigorously protested certain United States actions in disposal of agricultural surpluses, particularly with respect to our sales of linseed oil for export at far below domestic prices, and has asked for consultation with us on the general problem of agricultural surplus disposal.

Comment from the Defense Department:

"This Department is in agreement with Dr. Eisenhower's conclusions."

I. PARAGUAY

Recommendation

"We should continue our programs of technical assistance . . . the United States would obviously derive great political benefit in Paraguay if the Eximbank were to lend the relatively small amount of $2.5 million necessary to give the capital of Paraguay a water system."

Action

The amount allocated for the United States contribution to the technical assistance program in Paraguay was substantially greater in FY 1954 than in 1953. Future contributions to the program will depend on Paraguay's ability to assimilate them, as well as on actions taken by our Congress with respect to appropriations.

After lengthy consideration, it now appears that the Eximbank is ready to go forward with a loan to Paraguay for the waterworks system at Asunción.[19] This project has, of course, had the strong support of the Department.

Comment from the Treasury Department:

"The proposed water system for Asunción is within the purview of the World Bank. The economic case for it is weaker than for other projects that would create or save more foreign exchange."

Comment from the Defense Department:

"This Department believes the United States should continue Point IV and modest economic development aid."

Comment from the Eximbank:

"As long ago as 1938 officials of the Paraguayan Government discussed with the Bank the possibility of a credit to assist in constructing a potable water system for Asunción . . . broached from time to time but Paraguay has usually given higher priority to other projects. It is our opinion that a potable water system would probably cost considerably more than the $2.5 million presently given as the Paraguayan estimate. The proposal presents a number of technical and financial problems."

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[19] Regarding this loan, see Mr. Kalijarvi's memorandum, Aug. 13, 1954, p. 1489.

J. BRAZIL

Recommendation

"The President (Vargas) would wish to send a small mission to the United States to confer with officials of our Government regarding a plan of economic cooperation between our two Governments . . . We should be prepared to sit down with Brazil on her request and review sympathetically her problems. . . . In such talks it is anticipated that Brazil would seek financial assistance for economic projects which would not be of interest to private firms. If the United States is not in a position to provide such assistance, it will probably be very difficult to reach agreement with Brazil on significant plans for economic cooperation.

"We should continue to urge upon Brazil recognition of the benefits of private investment . . . We should also continue to urge the International Bank to expedite sound loans to Brazil in connection with the recommendations made by the Joint Brazil–United States Economic Development Commission . . .[20]

"Careful consideration should be given in our Government as to methods by which Brazil can be encouraged to modify its present restrictive petroleum legislation and find constructive solutions which will permit sound development of Brazil's petroleum resources."

Action

The small mission mentioned above has never been sent to the United States, although various individuals holding high positions in the Brazilian Government have visited Washington during the past year. In accordance with this recommendation to consult and in preparation for the Rio Economic Conference, the Department some time ago formally invited the Brazilian Government to send a delegation to Washington to discuss bilateral economic matters. The Brazilians received this invitation with considerable satisfaction, but decided to delay the talks until the arrival in Brazil of Assistant Secretary Holland, who is now scheduled to visit Rio in mid-September.[21] The Vice President of Brazil, Cafe

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[20] The final report of the Joint Brazil–United States Economic Development Commission, containing the Commission's recommendations for the economic development of Brazil, was published as *The Development of Brazil: Report of the Joint Brazil–United States Economic Development Commission with Appendixes* (Washington, 1954).

[21] Between Sept. 5 and Oct. 10, 1954, Assistant Secretary Holland visited the ten countries of South America and Mexico in order to discuss with the respective heads of state matters pertaining to the forthcoming Rio Economic Conference; extensive documentation relating to his trip is in file 110.15 HO for 1954.

Filho, has been invited for an official two weeks visit in the United States commencing October 18.[22]

With respect to loans, a sympathetic reception was given to a visiting Brazilian delegation which came to the United States in May of this year for discussions relative to modifying the $300,000,000 loan repayment schedule. A satisfactory adjustment was made, and general loan policies were discussed. Several Eximbank loans [23] have been granted since January of this year for Brazilian development projects.

With respect to World Bank loan activities in Brazil, a special resident representative of the Bank has recently established an office at Rio de Janeiro to work closely with the Brazilian Government. The President of the World Bank, Mr. Eugene Black, and members of his staff visited Brazil and reached an understanding with Finance Minister Aranha concerning development loan applications now on file with the Bank. It was agreed to provide a "breather" of several months while World Bank and Brazilian officials completed studies of Brazil's financial position. It is anticipated that further loans will be forthcoming as Brazil's financial situation improves.

The Petrobras Government Petroleum Corporation has been organized, but no attempt has yet been made to modify existing legislation which prevents foreign investment in Brazil's petroleum development on a reasonable basis. However, Brazil's exchange shortage and the inability of the Brazilian Government to provide dollars to Petrobras exert pressures on Brazil to modify somewhat its present restrictive policy, as against the extreme nationalism which would continue to deny foreign participation altogether. The Department is now examining the possibilities of approach to the Brazilian Government on this subject.

Despite progress in certain aspects of our relations, Brazil still entertains exaggerated feelings of neglect by the United States. This situation makes our relations disturbed and delicate.

Comment from the Treasury Department:

> "The World Bank is the normal source for development financing . . . that Bank will remain in close contact with Brazil's efforts to qualify for further loans. We agree with Dr. Eisenhower that a solution to Brazil's fuel problem is fundamental to the country's sound development and that the inflation and other financial problems need urgently to be tackled by Brazil."

Comment from the Defense Department:

> "It is believed that the expansion of Brazil's production capacity would be mutually beneficial to our two countries."

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[22] Documentation relating to Vice President Cafe Filho's visit is in file 033.3211 for 1954.

[23] For documentation on these loans, see pp. 584 ff.

Comment from the Eximbank:

"Although the Eximbank is not mentioned, there is a suggestion that the United States should be in a position to assist in its desire to seek financing for economic projects. The Eximbank has extended valuable assistance to Brazil which we believe has been of great benefit to both countries. As indicated above, the Bank could do so in the future in such cases in which the interests of the United States would be served."

NAC files, lot 60 D 137

Minutes of the 214th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, September 22, 1954[1]

CONFIDENTIAL

[Here follows a list of those present (13).]

The Chairman stated that he had called the meeting for an informal discussion of lending policy of the Export-Import Bank, particularly with reference to Latin America. He thought it desirable at this time for the Council to review the recent activities of the Bank and to reach a meeting of minds on the broad lines of future policy. He indicated that there was general understanding on the area of operations of the International Bank as a lender to governments and the role of the Export-Import Bank in facilitating U.S. exports and imports.

Secretary Humphrey suggested that it might be helpful to begin the discussion by referring to the purposes of the Bank as set forth in its basic legislation[2] as follows:

(1) "aid in financing and to facilitate[3] exports and imports and the exchange of commodities between the United States or any of its Territories or insular possessions and any foreign country or the agencies or nationals thereof"

(2) "supplement and encourage and not compete with private capital"

(3) "that loans . . . shall generally be for specific purposes"

(4) "that loans . . . offer reasonable assurance of repayment."

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[1] The National Advisory Council, established in 1945, had responsibility for coordinating the policies and operations of U.S representatives to the International Monetary Fund, the International Bank for Reconstruction and Development, and all other agencies of the government involved in making foreign loans or engaging in foreign financial, exchange, or monetary transactions. The Council consisted of the Secretary of the Treasury as Chairman; the Secretaries of State and Commerce; the Chairman of the Board of Governors of the Federal Reserve System; the Chairman of the Board of Directors of the Export-Import Bank; and, originally, the Administrator of the Economic Cooperation Administration (followed by the successive administrators of U.S. agencies for foreign aid).

At this meeting, Under Secretary Smith represented the Department of State; he was accompanied by Messrs. Hoover, Waugh, and Woodward.

[2] Apparent reference to the Export-Import Bank Act of 1945 (Public Law 173), approved July 31, 1945; for text, see 59 Stat. 526.

[3] The initial words quoted in these minutes actually read as follows: "aiding in the financing and facilitating of . . . ."

Mr. Bedell Smith stated that he thought that the provisions of the Act which Secretary Humphrey had read were subject to quite a wide range of interpretation and application. For example, he referred to the provision which stated that loans should generally be for specific purposes in relation to the action taken in the $300 million loan to Brazil for commercial arrearages.[4] He suggested that it was necessary to take into consideration the indirect as well as direct effects of loans on U.S. exports and imports. Secretary Humphrey agreed that the Brazilian loan was an exception but felt that the Act was clear in indicating that loans by the Bank should generally have a direct relation to U.S. exports rather than a vague indirect connection.

Governor Stassen stated that he thought the language was subject to a variety of interpretations and suggested that the Attorney General might be asked for an opinion. Secretary Humphrey commented that the Attorney General would not likely give an opinion on the Act except in relation to a specific case.

Secretary Humphrey summarized the figures on Export-Import Bank and International Bank lending in Latin America (see table[5] entitled "Eximbank and International Bank: Total Loans Outstanding to Latin America as of June 30, 1954") and then referred to the list of credits which the Export-Import Bank had established in the period from January 1, 1953 to September 20, 1954 (see table[5] entitled "Export-Import Bank of Washington—Credits Established During the Period January 1, 1953 to September 20, 1954"). He suggested that perhaps the best way to examine general policies was to look at the specific cases which had been before the Bank.

Secretary Humphrey noted that there had been approximately $¾ billion of loans by the Export-Import Bank from January 1, 1953 to September 20, 1954. Mr. Waugh pointed to the fact that of the $387 million credits established in the period January 1, 1953 to June 30, 1953, $300 million had been the loan to Brazil for commercial arrearages. He also noted that the amounts in subsequent six months' periods had declined. He also noted that of the credits of $103 million from July 1, 1954 to September 20, 1954, $60 million had been for cotton to Japan and $34 million had gone to South Africa in connection with the atomic energy program. Thus he felt that the volume of lending in Latin America had been relatively small.

Governor Stassen commented that there was a fairly widespread impression that the Bank had stopped lending in Latin America since the Brazilian loan.

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[4] Reference is to Export-Import Bank credit no. 541, authorized in favor of the Banco do Brasil, S. A., on Feb. 21, 1953; see Mr. Mann's memorandum, Feb. 20, 1953, p. 607.

[5] Attached to source text, but not printed.

Secretary Humphrey suggested that the Council turn to the list of those applications which the Export-Import Bank had rejected during this period (see table[6] entitled "Applications Rejected During the Period January 1, 1953 to September 20, 1954"). He noted that the Bank could only make loans where it had appropriate applications.

Governor Stassen inquired concerning the list of items on page 3 involving exporter credits to Argentina. General Edgerton indicated that these had not been considered because of foreign policy considerations. Mr. Bedell Smith said the State Department did not favor consideration of these loans because of the discriminatory policies which Argentina was pursuing at that time.

Inquiry was made concerning the financing of locomotives to Uruguay, Israel, and Belgium (page 2). General Edgerton indicated that these were credits to government-owned systems and it was felt at the time that they were more appropriate for the IBRD. In the case of Uruguay, the International Bank had undertaken commitments to assist in the financing of railway equipment.

In the financing of the chemical plant in Mexico (page 2) the Bank believed private financing should be available.

Regarding the financing of electrical equipment in Colombia (page 2), General Edgerton indicated that this was a group of miscellaneous items and the Bank believed it reasonable to participate in the financing of some individual items, but preferable not to finance the entire group.

With reference to credits for the Consolidated Railroads of Cuba (page 2), General Edgerton indicated that the railroad's credit was not good. Mr. Hoover commented that in the case of many of these foreign public utilities, the local governments fixed rates so low that operations were unprofitable. Mr. Bedell Smith said he thought that the State Department could do a great deal in this field through negotiation with foreign governments for equitable treatment of utilities and other investment. In this connection, he referred to the work which had been done to obtain Mexican action on railway rates, facilitating recent lending by the International Bank. Secretary Humphrey commented that it was important for the Export-Import Bank to work closely with State on these matters.

Reference was made to the financing of tractors and spare parts for Argentina (page 5). On this credit, General Edgerton commented that the Bank was informed that Argentina would not grant the necessary licenses for the importation of the equipment.

Attention was then directed to the financing of the Chilean State Railways (page 4). It was noted that the State Railways had an International Bank loan. General Edgerton commented that the railroad was not in a sound financial position at this time. Secretary Weeks inquired whether it would be possible to influence the Chilean Government to adjust railroad rates to reflect current price conditions. Mr. Bedell Smith indicated that he thought State might be able to do so.

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[6] Attached to source text, but not printed.

Secretary Humphrey then suggested that the Council turn to the list of large projects which might be coming to the Bank's Board, submitted by General Edgerton, as a basis for appraising general policy for the future (paper attached).[7]

Secretary Weeks referred to the Senate Committee Report [8] accompanying the recent Export-Import Bank legislation and inquired as to the implications of the legislation for NAC review of Export-Import Bank policy. Mr. Overby noted that the legislation gave the NAC the same relationship to the Export-Import Bank as it had prior to Reorganization Plan No. 5. Secretary Humphrey stated that the role of the NAC was to deal with coordination of general policy rather than a review of individual loans. He thought, however, that it was useful to look at the individual cases in the paper submitted by the Bank in terms of the policy issues raised.

General Edgerton then summarized the information contained in the Bank's paper on a possible credit for the Compania Argentina de Electricidad, noting particularly the problems of power rates in Argentina and the questions associated with the expropriation of American and Foreign Power facilities.

Mr. Burgess commented that if a loan were granted to Argentina prior to a clear change of attitude toward treatment of foreign investors, other countries in Latin America would regard our action as inconsistent with the principles we had laid down. Mr. Marshall Smith [9] suggested that we should make compensation to American and Foreign Power as a condition of the loan. In this connection, Mr. Hoover read a letter [10] from Mr. Robertson of American and Foreign Power asking withholding of U.S. credits until the company received a just settlement in Argentina.

Mr. Bedell Smith stated that the problem in this case would be to work out appropriate understandings with Argentine Government as a condition for the credit. Secretary Humphrey agreed.

The Chairman then turned to the cases of possible financing for steel mills in Argentina, Brazil and Colombia.

General Edgerton stated that Argentina was placing the highest priority on the establishment of an integrated steel mill and would go ahead with foreign financing from elsewhere if they did not get it from the Export–Import Bank. In this connection both Secretary Weeks and Secretary Humphrey noted that some of the equipment desired by the Argentine would have to come from this country.

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[7] Not printed.

[8] Apparent reference to Senate Report 2270, Export-Import Bank Amendments of 1954, by the Committee on Banking and Currency to accompany S. 3589, 83d Cong., 2d Sess.

Senate bill 3589 became the Export-Import Bank Management Act (Public Law 570), approved Aug. 9, 1954; for text, see 68 Stat. 677.

[9] Deputy Assistant Secretary of Commerce for International Affairs.

[10] Not found in Department of State files.

Secretary Humphrey reviewed the factors in this and similar cases which made steel production high cost and uneconomic. He referred to the fact that our steel industry felt disturbed at U.S. financing of foreign competitive industry. It was his view, however, that the industry would have to have recourse to the Congress inasmuch as he believed the law required us to finance export of U.S. equipment, assuming reasonable assurance of repayment.

Secretary Weeks said that he did not believe the law required the Bank to extend exporter credits if other considerations of policy were more important than the export of a particular piece of equipment.

Governor Stassen suggested that it might be desirable to have an interdepartmental committee study the problem of financing competitive industry abroad, taking into consideration both short and long term implications for U.S. exports and imports.

Mr. Martin[11] stated that his experience in the Export–Import Bank and since suggested a somewhat broader interpretation of the Bank's legislation than had been indicated by the Chairman. He felt there was no mandatory requirement to finance any project simply because it contributed to some immediate exports of U.S. goods. He suggested that each project had to be examined in terms of economic soundness and its longer term implications for U.S. trade relations. Regarding the specific case of Brazil, he said the initial financing of Volta Redonda had been undertaken in circumstances peculiar to the war. He did not feel we were bound to finance the expansion of the Brazilian steel industry if we believed it not sound economics to do so.

The Chairman next raised the question of financing the Toquepala copper project. He stated that in his judgment the issue posed by this case was quite clear. The Export–Import Bank should supplement, not compete with, private capital. If this project were sound, there was no doubt in his mind that additional private money could be obtained. He thought the Bank might appropriately assist in the financing of the major U.S. equipment required for the project through exporter credits, but should not provide general capital for the operation.

Mr. Bedell Smith said the State Department thought this was a sound project and was most anxious that it move forward. He agreed that it was desirable to obtain as much private financing as possible, but indicated concern at long delay or abandonment of the project if such financing were not forthcoming. Mr. Hoover commented in looking at the data on the project that it appeared to be a very profitable venture. On the basis of these estimates, he believed further private financing should be possible.

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[11] William McChesney Martin, Jr., Chairman, Board of Governors, Federal Reserve System.

At the close of the meeting the Chairman said the conclusions of the meeting should be regarded as tentative and opportunity would be given for further exploration of these issues.[12]

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[12] The implications of Export-Import Bank loans to Latin America for the general lending policy of the United States was further and inconclusively discussed at the 217th meeting of the NAC, Oct. 26, 1954; the minutes of the meeting are in NAC files, lot 60 D 137. For documentation concerning the general lending policy of the United States, see volume I.

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Memorandum by the Assistant Secretary of State for Economic Affairs (Waugh) to the Secretary of State[1]

TOP SECRET WASHINGTON, October 28, 1954.

Subject: Policies With Respect to the Export-Import Bank.

Problem:

Areas of difference between the Treasury Department and the State Department with respect to the policies and operations of the Export-Import Bank.

Background:

While the operations of the Export-Import Bank have not formed a major part of our overseas financial assistance in the last five or six years, the transactions of the Bank have been significant in our relations with Latin America and with certain other countries. After the extension of the $300 million loan to Brazil in early 1953, Reorganization Plan No. 5 was submitted to Congress and came into effect in early August. The principal effect of this Plan was to abolish the Board of Directors of the Bank and thereby remove the Secretary of State from his ex officio position as Director. In addition, it removed the Bank's principal officer from membership in the NAC.

Senator Capehart, in September, commenced hearings upon the operations and organization of the Bank to determine what might be done to reactivate this Organization. At the opening session of Senator Capehart's Committee on this subject, Secretary Humphrey stated that "The Export-Import Bank implies the aid to exports and imports and to current trade by loans of much more rapid turnover and shorter duration." He further stated, "However, as Secretary of the Treasury I do want to make clear to everyone that the Government must question both its right and its financial ability to continue to use taxpayers' money to finance investments abroad on a large scale in the development of competitive enterprise." (Tab A)[2]

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[1] Drafted by Jack C. Corbett, Director of the Office of Financial and Development Policy. A handwritten notation on the source text indicates that the Secretary saw this memorandum.

Following extensive investigations and hearings the Senate Banking and Currency Committee reported as follows:

> "Your committee finds no legislative limitation upon the loan authority of the Export-Import Bank that would exclude it properly from making long-term, medium-term, or development loans.
>
> "Any distinction between long-term and short-term credits or between exporter credits, as such, and loans to facilitate the purchase by United States private investors abroad of capital goods and equipment in the United States is a highly artificial one, and quite undesirable from the standpoint of the interests of our country. The bank should sympathetically consider kinds and types of proper loan applications irrespective of term which would aid in facilitating the exports of the United States, maintain our industrial potential, and provide continuing employment in our country."

The House Banking and Currency Committee expressed similar views. The Bill reorganizing the Bank was passed in August 1954. On January 22, the NAC took action with respect to the Export-Import Bank lending policy and this action has been widely interpreted as restricting the operations and field of activity of the Export-Import Bank. (Tab B)

Bank Areas of Difference

1. *The Bank as an Instrument of Foreign Policy*

The Department has long regarded the Bank as an instrument of foreign policy and in this regard was supported by the Randall Commisson Report which reads as follows:

> "The Export-Import Bank is essentially an instrument of United States foreign policy. The International Bank for Reconstruction and Development, on the other hand, promotes the interests of the United States broadly in the field of foreign economic development. The record does not indicate that there has been harmful competition or duplication in the operations of the two banks."

The removal of the State Department from the Board of the Bank eliminated the statutory expression of this point of view. The Treasury was in full accord with this reorganization of the Bank. The Bank is the only permanent financial organization operating in the foreign field. The Department has and must continue to place a great emphasis on the effective operation of the Bank.

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[2] No tabs were found with the source text.

2. *Types of Loans.*

The attitude of the Treasury towards the types of loans that the Export-Import Bank should properly make is mentioned above. In considerable measure this view was reiterated at a recent NAC meeting upon the subject. (Tab C)

The Department, both from the point of view of the conduct of foreign relations and foreign economic policy, holds the view that the Bank should not be so limited in its lending policy. The Bank's lending policies should be more than the simple promotion of U.S. exports and should look towards participating in a healthy development of the economies of friendly countries, principally in Latin America. This objective cannot be served by severe limitations on the types of loans to be made and upon the terms of such loans.

3. *Legal Authority*

There is attached a copy of the memorandum by the Legal Adviser on this point. It demonstrates, and in this it is supported by the Bank's own officials as well as by legislative history, that this point of view substantially contradicts that expressed by Secretary Humphrey at the recent NAC meeting. (Tab D)

4. *Volume of Lending*

No detailed discussions have taken place between the Department and the Treasury concerning the volume of prospective lending operations by the Bank. However, it is clear that unless a substantial intensification takes place repayment to the Bank will exceed disbursements. Indeed, the Bank's officials have estimated that the Export-Import Bank can lend over $5 billion in the next ten years with no drain on the Treasury cash budget. (Tab E)

5. *Loans vs Aid*

Unless the Bank's lending operations are substantially accelerated we will be under real and increasing pressure to seek appropriated funds to assist economic development in Latin America. A more vigorous Export-Import Bank policy will do much to avoid this eventuality and at the same time will give the U.S. a reasonable prospect of repayment with interest of such loans.

Clarification of the foregoing points would do much to give substance to the policy decisions with respect to Latin America taken by the NSC. (Tab F) While this policy envisages increased activity for the Bank, it does not deal with some of the areas of misunderstanding which have so sharply reduced the Bank's activity in Latin America.

MSA-FOA Director's files, FRC 56 A 632, "Latin America–1954"

Memorandum by the Acting Regional Director of the Office of Latin American Operations (Hardesty) to the Director of the Foreign Operations Administration (Stassen)

CONFIDENTIAL WASHINGTON, November 15, 1954.

Subject: Need for a Clear Understanding Between FOA and State on Program Development in Latin America.

Differences between FOA and State on program development in the fields of industry, labor and private investment were highlighted in the views expressed at the Board Meeting [1] of the Institute of Inter-American Affairs on Wednesday, November 10.

While this memorandum is submitted in specific response to your directive (at the November 3 meeting [1] on FOA World-Wide Financial Status) that I prepare a brief memorandum on FOA and State differences concerning the development of the Technical Cooperation Program in Latin America, it may also serve as a basis for your discussion with Dr. FitzGerald this afternoon.[2]

FOA's Position on Program Development

It is my understanding that FOA believes that in extending technical assistance to host countries we should be free to discuss with them their overall problems of economic development, to assist them in identifying weaknesses and sources of potential strength in their economy, and to join with them in developing the plans and means through which to eliminate such weaknesses and to realize such potential strengths. One of these means is, of course, the provision of technical assistance through the FOA program.

As a natural outgrowth of the above, FOA believes that USOM staffs should be provided with properly qualified specialists to make such discussions meaningful, to identify problems correctly and to develop plans realistically. Examples of such specialized personnel include advisors in the fields of general resources management, labor, industry, private investment, finance and economic development. In many instances, advisory assistance in these fields should be viewed as being of a program development and support nature as distinguished from technicians assigned to implement specific programs. The use of such program development and support personnel is necessary to determine the advisability of carrying out a program in the particular field involved, and where it appears advisable to carry out a program in the particular field, such advisory assistance is essential to the proper determination of the nature, size and direction of such a program.

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[1] No record of this meeting was found in Department of State files.

[2] No record of the referenced discussion was found in Department of State files.

Our Experience with State on Program Development

Understanding and cooperation between FOA and State in the development of programs in the so called traditional fields of activity in Latin America—agriculture, health and sanitation, and education—continues to be excellent. However, in certain of the so called new fields of activity, as measured by their recency of introduction into our program in Latin America, experience has shown that State disagrees with several aspects of the FOA position on program development. For example, State does not agree that FOA should assign a labor advisor or labor economist to any USOM staff. Furthermore, OLA understands that State policy will not permit FOA to join with Latin American countries in identifying their economic problems or the planning for their solution if such problems are outside the scope of current FOA operations, except in such cases where the host country makes an official request for such discussion or planning and obtains acceptance from the United States. In net effect, this policy prevents assignment to USOMs of certain types of specialists who are needed: (1) to analyze certain of the host country's basic economic problems and potentials and advise the USOM Director in planning, guiding and evaluating the FOA program; and (2) to advise the host country, when it so desires, on that country's economic development requirements.

Specific illustration of State's viewpoint concerning the assignment of personnel in the fields of industry, labor and private investment are shown in draft comments which were submitted informally by State concerning the FY–1955 Program Plan for Technical Cooperation in Latin America. These comments were prepared for the Board Meeting last Wednesday and pertinent extracts applying to the fields of industry, labor and private investment are attached.[3]

As you will note from the attached comments, State appears vigorously opposed to the utilization of any program development or support personnel such as labor advisors or labor economists, and seems strongly opposed to the use of trade and investment types of personnel. In the case of industry, the lack of an official request by the host government for a specialist in this field is emphasized. The position is taken that an official request is a necessary precondition to the assignment of any personnel in the industry field.

In regard to this requirement for an "official request from the host government", I might state that our programs in the so called traditional fields of activity did not develop purely on the basis of official host country requests but were often preceded by our sending a specialist in that field to the host country to work with officials of the host country government. This later resulted in the development of a realistic program and an official request for assistance. An excellent case in point is the agriculture program in Colombia in which case we had an agriculture specialist in our Mission for some six months preceding an official request for assistance in that field. Frankly, I strongly doubt that we would have a technical cooperation program in Latin America of even its presently limited diversity had we awaited official requests by host country governments before sending program development personnel to the field.

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[3] Not printed.

In general State considers that the assignment of specialists in the so called newer fields of activity is a matter of "whetting the host country's appetite" and that such specialists may be categorized as "salesmen".

Recommendations

It is recommended that a high level agreement be reached between FOA and the Department of State:

(*a*) To clarify the program development responsibilities of FOA; and

(*b*) To resolve the present conflict of views concerning the inclusion in our Technical Cooperation Program in Latin America of activities in the fields other than those currently forming the major components of our program there.

It is further recommended that FOA and State jointly inform all officials concerned in Washington and the field of the understandings reached.[4] A clear and definite statement will assist in avoiding future misunderstandings.

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[4] Department of State files for 1954 contain no record of an understanding between the Department of State and FOA along the lines recommended by Mr. Hardesty.

820.00 TA/11-3054

Memorandum by the Acting Deputy Assistant Secretary of State for Inter-American Affairs (Sparks) to the Deputy Under Secretary of State for Political Affairs (Murphy)

CONFIDENTIAL WASHINGTON, November 30, 1954.

Subject: Technical Cooperation and Development Assistance Programs in Latin America.

We have just been told informally that, after considering your letter to him of November 24 stating that the Department of State believes the Technical Cooperation Program Plan for Latin America should be implemented at an early date except for those activities to which the Department has objected,[1] Mr. Stassen has reiterated his instructions to his staff that the Program shall continue to be held up until after Mr.

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[1] Not found in Department of State files.

Stassen meets with Secretary Dulles, which he hopes to do on December 1. In your conversation with Mr. Stassen, it is recommended that you discuss with him both the Technical Cooperation and the Development Assistance Programs in Latin America along the following lines:

1. It is our understanding that except for funds required to maintain the FOA personnel who are already in Latin America and who are continuing to work on activities for which financing is still available from funds contributed in previous years, the $26 million appropriated and allocated for the Technical Cooperation Program for FY 1955 has not been released for obligation even though almost five months of the fiscal year have passed. Although the activities in operation at the end of FY 1954 (which constitute the major portion of the FY 1955 Program) are still in operation, most of these are operating at reduced levels and many are actually running out of funds. In addition, activities authorized for the first time in FY 1955 Program are not being initiated. For example: (a) the expanded program for Guatemala (including technical cooperation and development assistance), which was developed because of urgent political considerations, is not going forward. The Director of the USOM to Guatemala and Guatemalan officials are in Washington to press for action on this program, in particular the highway program; (b) hundreds of trainees scheduled to be brought to the United States under the FY 1955 Program are not being processed. (c) The proposed contract with the Inter-American Institute of Agricultural Sciences of the OAS (Turrialba) under which the Institute would furnish assistance in cacao and coffee production, has not been signed. (d) Proposed contracts with various United States educational institutions for carrying out segments of the Technical Cooperation Program are not being executed.

2. With regard to Development Assistance: (a) it is our understanding that FOA is withholding action to make available to Bolivia promptly the $16 million in grant aid as requested in your letter of November 23 to Mr. Stassen; and (b) the $3.7 million for Guatemala is being held up as mentioned above.

3. Failure to implement the basic Technical Cooperation Program and the Development Assistance grants in Guatemala and Bolivia would give grounds to the Latin American countries to consider the United States in default of commitments made to them. This would cause serious damage to the position of the United States in Latin America.

After you make the foregoing statements, Mr. Stassen may counter that the Department of State has caused the delay in implementing the programs and that he still wishes to resolve with Secretary Dulles the points at issue between FOA and the Department. If so, I recommend that you make the following points:

1. The activities to which the Department has objected represent a relatively small portion of the total FY 1955 Plan. (These fall principally in the Industry, Investment and Labor fields, where the views of ARA continue to be those set forth in Mr. Holland's memorandum of November 13 to the Secretary (Tab A).[2])

2. The Department continues to be prepared to give consideration to the possible implementation of certain of the activities in question. For instance, our objection in some instances would be removed if the other Government makes a request for the technical assistance which would be rendered. In this connection it is important that you read the memorandum to the Secretary of November 13, 1954 (Tab A).

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[2] Not found with the source text and not located in Department of State files.

811.054/12-354

Memorandum by the Acting Assistant Secretary of State for Inter-American Affairs (Sparks) to the Secretary of State [1]

CONFIDENTIAL WASHINGTON, December 3, 1954.

Subject: United States Anti-Trust Suit Against United Fruit Company

Discussion:

An anti-trust civil suit was commenced by the Attorney General against the United Fruit Company by filing a complaint in the United States District Court at New Orleans, Louisiana on July 2, 1954. The suit alleges monopolistic practices by UFCO and, more broadly, that the defendant constitutes a monopoly of the banana industry; the relief prayed for included, among many other things, divestiture of foreign holdings making up the monopoly and termination of exclusive contracts for purchase of bananas from independent growers. On November 9, Assistant Attorney General Barnes notified the United Fruit Company that such divestiture is essential to settlement and therefore rejected the defendant's draft of a consent decree. It is understood that the suit has been under study since 1937, and the complaint in fact refers to acts committed as long as 25 years ago; filing of the suit was twice withheld since 1946, principally on representations of the Department of State. State interposed no objection when the Attorney General indicated his intention to file suit in June 1954.

United Fruit Company has informed the Department that it cannot and will not consent to divestiture of its foreign holdings, claiming them essential to the integrated successful operations of the banana business. Mr. T. J. Coolidge, Chairman of the Board of Directors, outlined the company's position generally to Deputy Under Secretary Murphy on November 18, 1954 (Tab A). More complete background is given in my memorandum to Mr. Murphy of November 18 (Tab B).[2]

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[1] Drafted in response to a request from the Secretary by Raymond G. Leddy of the Office of Middle American Affairs, and routed through the Executive Secretariat.

UFCO has continuously sought the assistance of the Department of State, originally to prevent filing the suit and later to exert influence toward its settlement. Most recently the company has asserted that it cannot undertake large expenditures to improve and expand its properties in Guatemala and Honduras as long as title to these properties remains under threat of the anti-trust action. We of course indicated that renewed investments by UFCO are most desirable in Guatemala and Honduras as a very substantial contribution to their economies.

ARA believes that continuous difficulties will probably result from this kind of suit, even if successful, inasmuch as the power to enforce an anti-trust decree is largely limited to our jurisdiction, and inasmuch as foreign jurisdictions may not be willing to recognize any such decree. The National Security Council is awaiting the Attorney General's recommendations, probably in January 1955, on restudy of the anti-trust laws relating to foreign operations by Americans. The Department has not formulated any definite position on the United Fruit anti-trust action. ARA believes that such position should be formulated as recommended below:

Recommendation:

(1) That the Department urge on the Attorney General the desirability of settlement rather than trial, which would have tangible repercussions on this company's business and possibly other American investments in Latin America; and (2) that the Attorney General be asked to reconsider his insistence on divestiture in settlement.[3]

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[2] Neither Tab A nor Tab B was found with the source text; copies of the memoranda are in file 811.054/11-1854.

[3] There is no indication on the source text concerning the action taken on this recommendation.

THE TENTH INTER-AMERICAN CONFERENCE, HELD AT CARACAS, VENEZUELA, MARCH 1–28, 1954 [1]

Conference files, lot 60 D 627, CF 231

Memorandum by the United States Representative on the Council of the Organization of American States (Dreier) to the Assistant Secretary of State for Inter-American Affairs (Cabot)

SECRET [WASHINGTON,] January 5, 1954.

[Subject:] Report on Outlook for Caracas Conference

As of the first week of January, I should like to submit the following report taking stock of where we stand with reference to the Caracas Conference, as I see it.

Work at the technical level in preparing position papers [2] on the various agenda [3] items is proceeding pretty much on schedule. I have every reason to believe that the large majority of position papers, based upon current policy, will be ready for consideration by the higher offices of the Department on or about January 15. We aim to have them all approved in final form by February 1, except for a few which are necessarily delayed because of external circumstances.

Arrangements for the Delegation [4] are going forward. Budget limitations will inevitably force us to have a delegation somewhat smaller than we would like for the manifold list of subjects to be discussed. Arrangements for housing and offices of the delegation are also under way. Housing at the new hotel should be pleasant and convenient.

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[1] For additional documentation and summary accounts of the Conference, see *Tenth Inter-American Conference, Caracas, Venezuela, March 1–28, 1954: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 5692, Washington, 1955), hereinafter cited as *USDel Report; Décima Conferencia Interamericana, Caracas, Venezuela, 1° al 28 de Marzo de 1954: Actos y Documentos*, vols. I–VI (Washington, Unión Panamericana, 1956); "Report of the Pan American Union on the Tenth Inter-American Conference," printed as Special Number in *Annals of the Organization of American States, 1954* (Washington, 1954), hereinafter cited as *PAU Report;* and *Tenth Inter-American Conference: Handbook for Delegates* (Washington, Pan American Union, 1953), hereinafter cited as *Handbook for Delegates.*

[2] Position papers prepared for the Tenth Inter-American Conference and bound in three position books are contained in OAS files, lot 60 D 665.

[3] For text of the draft agenda, approved for submission to the governments of the member states by the Council of the Organization of American States (COAS) on July 1, 1953, see *Annals of the Organization of American States*, 1953 (Washington, 1953), p. 227; for text of the definitive agenda, see *USDel Report*, pp. 189–191, or *PAU Report*, pp. 145–146.

[4] For a complete list of the delegations to the Tenth Inter-American Conference, see *USDel Report*, pp. 191–206.

Office space may be expected to be cramped due to physical limitations at the Conference site, as well as budgetary restrictions.

From the standpoint of intra-Latin American relations, prospects for the Conference seem somewhat brighter with the recent announcement of the release of a substantial number of political prisoners in Venezuela. There now appears to be no reasonable grounds for doubting that all the 21 republics will be represented at the Conference, although the position of Guatemala remains uncertain. On the other hand, the condition of the dispute between Colombia and Peru over the asylum of Haya de la Torre[5] remains touch and go. If the Peruvian Government remains intransigent in its position, it is very likely that the Conference will be disrupted by the discussion of this case and the possible walkout of either Colombia or Peru. Moreover, some Latin Americans, notably the Venezuelan Government, as reported recently by Ambassador Warren, feel that rifts between Latin American Governments, such as that between dictatorships and advocates of democracy, will exert a divisive influence, obstructing positive achievement at the Conference.

This Government, as of this date, remains without any new policy in the major field of Latin American interest, namely, economic affairs. The major interest of the Latin Americans lies in seeking assurances from us on prices of raw materials and terms of trade, access to U.S. markets, and capital for economic development. The only subject on which any positive proposal by the U.S. is now feasible is that of public lending. A proposal on this subject is being sent to the Secretary. It has not yet been possible to clarify the administration's program based upon the report[6] of Dr. Milton Eisenhower. (Recommendations on this are due January 15.) The U.S. will, therefore, be in an essentially defensive position in regard to the subject on which the success or failure of this Conference depends. At the same time, the U.S. is seeking one or more anti-Communist resolutions which are not of major interest to many of the Latin American countries. The clarification of our positive economic program for this Conference therefore remains the largest and most important business to be accomplished if this Conference is not in fact to mark a considerable decline in the vitality of our inter-American relations.

JOHN C. DREIER

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[5] Reference is to the Peruvian political leader who had sought asylum in the Colombian Embassy at Lima in January 1949 and had been unable to obtain safe conduct from the Peruvian Government to leave his refuge. On Mar. 23, 1954, however, the representatives of Colombia and Peru announced at the Tenth Inter-American Conference that their governments had concluded an agreement on the asylum case, which permitted Señor Haya de la Torre to proceed to Mexico.

[6] The referenced report, submitted to President Eisenhower under date of Nov. 18, 1953, was published as *Report to the President: United States-Latin American Relations* (Department of State Publication 5290, Washington, 1953); it is also printed in the Department of State *Bulletin*, Nov. 23, 1953, pp. 695–717. Regarding its implementation, see Mr. Bennett's memorandum, Aug. 20, 1954, p. 229.

362/1-1354

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Secretary of State [1]

CONFIDENTIAL [WASHINGTON,] January 13, 1954.

Subject: Program for the Tenth Inter-American Conference

Discussion:

Prospects for constructive results at the Tenth Inter-American Conference at Caracas are not good. It is inevitable that the Latin American countries will principally seek commitments from the United States on such matters as tariff policies and prices for their exports, which this Government will not be in a position to give. Moreover, various intra-Latin American tensions, such as those between Colombia and Peru, and Venezuela and Costa Rica, will contribute a divisive influence. In an effort to develop the best possible position for the United States in the circumstances, I have drawn up the following proposals:

1. The President should be asked to send a special message to Congress on Latin America at about February 15, recommending a program of cooperation based largely on Dr. Milton Eisenhower's report. The suggested program is summarized in Tab A.[2] It involves total appropriations of about eighty million dollars, including all present programs, and would require only about seventeen million dollars in excess of amounts already included in the 1955 budget requests. This proposed message should do much to create a favorable background for our delegation at Caracas.
2. Point 1 in the proposed program is a statement that the U.S. will insure that a gross level of public lending (through IBRD and the Export-Import Bank) of $1 billion will be available over the next five years for sound economic projects within the capacity of the Latin American countries to finance. This proposal would be the principal measure of cooperation toward economic development which the U.S. would put forward at the Conference. It would form the core of a three-point program which is discussed in Tab B.[3]

Recommendations:

1. That the proposed program referred to in Point 1 above be recommended to the President as soon as it is possible to draw it up in final form, taking into account the reports expected from other Departments on January 15 regarding Dr. Eisenhower's recommendations.

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[1] Addressed also to the Under Secretary.

[2] Not printed; a slightly different version of the suggested program is printed as an annex to Mr. Cabot's memorandum of Feb. 12, 1954, p. 293.

[3] Not printed.

2. That the policy described in paragraph no. 2 above be proposed and supported in the National Advisory Council as the main feature of our position on economic questions at Caracas.[4]

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[4] This memorandum was returned to Mr. Cabot under cover of a memorandum by Roderic L. O'Connor, dated Jan. 18, 1954, which reads in part as follows: "The Secretary felt that he did not have time to get into these matters on the eve of his departure for Berlin and requested that henceforward questions in connection with this Conference be handled by General Smith, unless of course the General feels that it is desirable for the Secretary to be personally consulted." (362/1-1354)

Secretary Dulles attended the Four-Power Conference, held in Berlin, Jan. 25–Feb. 18, 1954; for documentation relating to the conference, see volume VII.

362/1-1554 : Circular airgram

The Secretary of State to Diplomatic Offices in the American Republics

CONFIDENTIAL WASHINGTON, January 15, 1954.

Subject: Background Information on Items on the Agenda for the Tenth Inter-American Conference.

CA-3670. In transmitting a copy of the agenda for the Tenth Inter-American Conference to the Embassy (CA-2692, dated November 17, 1953),[1] the Department indicated that it proposed to provide the Embassy with the U.S. position on the various items of the agenda as they were developed. There follows a brief résumé of the positions on the items included in Chapter I. *Juridical-Political Matters* of the Agenda. Similar résumés covering the remaining four chapters will be transmitted within a few days. The Embassy is authorized to use this material in its discretion in discussing Tenth Conference matters with government officials. The portions in parentheses are intended for the information of the Embassy only. The Department may in the near future wish to instruct consultation with other governments on specific projects or issues arising under various topics, in which case the Embassy will be provided with a more comprehensive statement thereon. The Embassy is requested to transmit immediately to the Department any information gathered in the course of discussions with government officials indicating the current government thinking on any of the topics on the agenda.

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[1] Not printed. (362/1-1753)

I. JURIDICAL-POLITICAL MATTERS

(1) *Peaceful Relations*

a. Possibility of Revising the American Treaty of Pacific Settlement (Pact of Bogotá)[2]

The Department is now studying the question of whether the possibilities of achieving satisfactory revision of this treaty, in the light of the numerous reservations and its having been ratified by only 8 countries, are such as to warrant what amounts to renegotiation of the Treaty at the Conference. Should it be determined that the U.S. can usefully participate in such reconsideration, it is certain that our principal objectives would be to eliminate the features to which our reservations were principally addressed: i.e., the compulsory requirement in certain of its provisions and the relinquishment of diplomatic protection of nationals in one of its articles. In addition, we would probably favor inclusion in the Treaty of reference to the Inter-American Peace Committee as an appropriate instrument for carrying out the procedures of "Good Offices" and "Mediation".

b. Inter-American Peace Committee

The U.S. strongly supports the IAPC, of which it is a member and has taken an active part in the preparation by the Committee of a proposal that the Conference approve the revision of its organization and procedures. The resolution drafted by the Committee would preserve the practical advantages, such as the Committee's small size and the informality of its procedures, while at the same time opening the door to the possibility of changes in membership which would permit countries other than the present five[3] to become members. It is also our view that the Conference should not approve any effort to reopen cases reported on by the Committee which have been settled in a manner satisfactory to the parties. (In view of the submission by Colombia of its dispute with Peru stemming from the asylum of Haya de la Torre, and Peru's apparent unwillingness at this date to accept the Committee's good offices in this case, it is possible that Colombia will seek to use this agenda item to place the Haya case before the Conference. The position of the U.S. on such a matter will depend upon developments in this case between now and the time the Conference opens.)

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[2] For text of the treaty, signed at the Ninth International Conference of American States, held at Bogotá, Colombia, Mar. 30–May 2, 1948, but not ratified by the United States, see *Ninth International Conference of American States: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 3263, Washington, 1948), p. 186, or *Annals of the Organization of American States, 1949*, p. 97. For documentation concerning the unwillingness of the United States to ratify the treaty, see *Foreign Relations*, 1949, vol. II, pp. 419 ff.

[3] Argentina, Brazil, Cuba, Mexico, and the United States.

c. Inter-American Court of Justice.

The U.S. opposed inclusion of this item on the agenda and does not expect to participate in the drafting of a statute for such a court, the principal reason being that its creation would involve unnecessary and unwarranted duplication of the International Court of Justice, which is an entirely adequate body for the judicial settlement of intergovernmental legal questions and to the statute of which all the American Republics are parties. (Since the proposal has considerable sentimental appeal to a number of Latin American States, especially El Salvador,[4] it will be necessary to use considerable discretion in any discussion of this matter prior to the Conference, although there should be no encouragement to any Latin American government to believe that the U.S. position will change, or that this Government would become a party to such a court even if it is established by the votes of others.)

d. Other Pertinent Instruments Relating to Pacific Settlement

The inclusion of this item resulted from an Uruguayan initiative which was not supported by any clear-cut specification of what, if any, proposal might be contemplated by the Uruguayan Government. No specific projects have been submitted to date. If the question should be raised of the possibilities for action under this item on the agenda, it would be desirable to find out what, if any, specific proposal any government may have in mind.

(2) *Colonies and Occupied Territories in America and Report*[5] *of the American Committee on Dependent Territories*

This item resulted from proposals by Argentina and Guatemala, and was approved in its present form by a considerable majority, with the U.S. abstaining as it did on Bogotá Resolution XXXIII[6] and on inter-American action on the "colonial" issue since the Ninth Conference. The principal reasons for our continued abstention on this issue are: (*a*) that the status of the dependent territories is a subject which involves the interests of both American and non-American states and would therefore more properly fall within the competence of the UN, in which all the interested States are represented; and (*b*) that the so-called "occupied" territories aspect of the item involves disputes which should either be taken up on a bilateral basis or submitted to procedures for peaceful settlement available to all of the parties. (In the absence of instructions to the contrary, any discussion of this matter in the period before the Conference should be limited to the above two points with a further indication that we are carefully considering all aspects and implications of the proposed item.)

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[4] For text of a preliminary draft statute for the establishment of an Inter-American Court of Justice, submitted to the Pan American Union by the Government of El Salvador, see *Handbook for Delegates*, p. 31.

[5] Published as *Informe elevado al Consejo de la Organización de los Estados Americanos* (Habana, 1949).

[6] For text, see *Ninth International Conference of American States: Report of the Delegation of the United States*, p. 268.

(3) *Regimen of Political Asylees, Exiles and Refugees*

It is not expected that we will take part in any detailed consideration of either of the draft conventions[7] proposed under this item, since that on so-called "Territorial Asylum" treats of a subject which we consider is adequately covered by the Habana Convention of 1928 on Duties and Rights of States in the Event of Civil Strife[8] and the Protocol[9] to be considered under item (4), while that on "Diplomatic Asylum" involves a doctrine which we do not recognize as part of international law and do not practice except in a very limited sense.

(4) *Protocol to the Convention on Duties and Rights of States in the Event of Civil Strife*

The U.S. has participated in the lengthy and detailed preparation of this draft protocol, intended to clarify and strengthen the principal inter-American treaty defining obligations to prevent the preparation of international revolutionary activities. It is expected that we shall support a draft along the lines of that presented, except for an article proscribing "systematic and hostile" radio propaganda which appears to us to involve a considerable risk of endangering basic principles of freedom of information. (It is believed that the most useful result of consultation on this item will be to call the respective governments' attention to this important project and to determine what problems the draft raises for them.)

(5) *Intervention of International Communism in the American Republics*

This item was proposed by the U.S. for the agenda on the basis of the points specified in the letter of Oct. 6, 1953[10] of the U.S. Representative[11] on the COAS. (See 8th Report[12] of Tenth Conference Preparatory Committee, Annex 4, page 26.) Specific projects to be introduced are still under consideration. (Pending receipt of further instructions, it is believed that discussions with Foreign Offices should be confined to: (1) indicating that we attach great importance to steps which will emphasize the danger to all independent governments arising from the intervention of the international communist conspiracy in their affairs and the need for effective steps to counteract this intervention; and (2) obtaining discreetly information regarding the general viewpoints of the respective governments as to what the Conference might accomplish under this item.)

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[7] For text of the draft conventions on territorial asylum and diplomatic asylum, see *Handbook for Delegates*, p. 54; for text of the definitive conventions, signed at Caracas, Mar. 28, 1954, see *USDel Report*, p. 175.

[8] For text of the referenced convention, signed at Habana, Feb. 20, 1928, and entered into force for the United States, May 21, 1930, see Department of State Treaty Series (TS) No. 814, or 46 Stat. (pt. 2) 2749.

[9] For text, see *Handbook for Delegates*, p. 62.

[10] Not found in Department of State files.

[11] Ambassador Dreier.

[12] The referenced report, dated Oct. 28, 1953, and submitted to the COAS as Document C-i-223-E (Rev. 1) on Nov. 10, 1953, is printed, without its appendices, in *Annals of the Organization of American States, 1953*, pp. 294 ff.

DULLES

362/1-2654 : Circular airgram

The Acting Secretary of State to Diplomatic Offices in the American Republics

CONFIDENTIAL WASHINGTON, January 26, 1954.

Subject: Background Information on Items on the Agenda for the Tenth Inter-American Conference.

CA-3903. Reference is made to the Department's circular instruction No. 3670 dated January 15, 1954,[1] giving a brief résumé of the U.S. position on the items included under Chapter I. *Juridicial-Political Matters* of the agenda for the Tenth Inter-American Conference. There follows a similar résumé with respect to the items under Chapter III. *Social Matters,* IV. *Cultural Matters* and V. *Organization Matters* of the agenda. The Embassy is authorized to use this information subject to the same stipulations set forth in the opening paragraph of the instruction under reference.

III. SOCIAL MATTERS

12. *Social Aspects of Economic Development.*

The U.S. proposes to stress the importance of governments giving careful attention to the direct relation to the success of economic development of social factors such as health, education, labor standards, and housing. It is also planned to propose that the OAS and its specialized agencies give appropriate emphasis to social aspects of economic development in relation to their work programs and the IA-ECOSOC consider whether additional measures need to be taken to assist governments in this regard.

13. *Human Rights: Measures for Promoting Human Rights Without Impairing National Sovereignty and the Principle of Non-Intervention.*

The Department has received no indication from Mexico, which proposed the item, or any other of the principal advocates of action in this field, such as Uruguay, regarding any specific projects which they plan to submit. We are prepared to support practical, constructive proposals for resolutions or declarations which will contribute to the desired objectives of promoting the dissemination of information on, or the observance of, human rights, but are opposed to the preparation and approval of a convention on the subject or a statute of an Inter-American Court of Human Rights. (FYI, we do not plan to take the initiative with any proposals, principally because we do not want to be in the vanguard of any movement which may precipitate a sharp cleavage at the conference between governments having varying degrees of political control. The Department would be especially interested in having any information which the Embassy is able to obtain as to the attitudes of other governments on what might be done at the Conference under this item and any specific proposals which it may be planning to make. Any inquiries made should avoid, however, stimulating action on this item.)

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[1] *Supra.*

14. *Development of the Cooperative Movement in America.*

It is our view that since cooperatives provide one of the practical means through which both social and economic conditions in the Americas may be improved, governments and the OAS should consider measures for assisting in their further development. On the basis of U.S. knowledge and experience, we plan to present suggestions as to steps which governments can appropriately take in this field.

15. *Problems of Housing of Social Interest.*

The U.S. will in general support the recommendation in the Report of the *Ad Hoc* Committee on Low Cost Housing[2] relating to domestic measures designed to improve housing conditions. With regard to the financing of housing, we believe that this is largely a domestic problem involving local labor and materials. The establishment of an Inter-American Bank for Housing would not afford, in our opinion, a practical solution to the problem. (FYI, a further reason for opposing the idea of an Inter-American Bank is that it would tend to divert attention from more realistic solutions and shift to the U.S. the task of providing financial support.)

16. *Causes and Effects of the Rural Exodus.*

Our current thinking is to propose that the country studies already initiated on this subject by the PAU be continued and that governments, as well as the PAU and specialized organizations of the OAS, concentrate efforts on measures which will contribute to raising standards of living, particularly in rural areas.

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[2] The referenced report was published by the Pan American Union under the title *Problems of Housing of Social Interest* (Washington, 1954).

17. *Social Welfare Work.*

It is believed that substantial progress has been made in this field since the Bogota Conference and that discussion at the Tenth Conference should center upon new trends and needs, particularly the need for better trained personnel for social welfare planning and administration for social work in rural areas. We will be prepared to discuss at the Conference effective measure which governments can take to meet these needs.

IV. CULTURAL MATTERS

18. *Cultural Cooperation.*

We are reviewing the broad field encompassed by this general topic to determine what aspects of the current program we believe should be emphasized and whether there are new activities we may wish to recommend to the governments or to the appropriate organs of the OAS. In all likelihood we will have some proposals of our own to present, and will, of course, give careful consideration to such as are presented by other delegations.

19. *Revision of the Convention for the Promotion of Inter-American Cultural Relations.*[3]

Having originally sponsored the Convention, the U.S. maintains a keen interest in its successful operation. Experience has demonstrated that the intricate machinery which it establishes for the selection and support of grantees has obstructed full implementation of the Convention rather than insured its effectiveness as intended. From our standpoint, revision of the Convention should be confined to a simplification of these cumbersome administrative procedures, such details to be left to the participants to work out among themselves. This would have the practical effect of permitting an expansion of current activities within the limits of the established program. We are not prepared, however, to extend the scope or scale of the program for which the Convention provides, as proposed by the Pan American Union in its working paper[4] on this item.[5]

20*a*. *Cultural Charter of America.*

In the preparation of the agenda the U.S. took the position that it would be advisable not to include this item since it was not likely that the Committee for Cultural Action (CCA) would have completed its work on the Charter in time for the Caracas Conference and, in any event, it was felt that a project as comprehensive as the one contemplated should first receive full consideration in the Inter-American Cultural Council. The CCA has not prepared a draft Charter and we hope that the Conference will not attempt to formulate the instrument, but entrust the task to the Cultural Council. With respect to the form in which the project should be cast, the U.S. is strongly opposed to the treaty approach.

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[3] For text of the convention, signed at Buenos Aires, Argentina, Dec. 23, 1936, and entered into force for the United States, Dec. 7, 1937, see TS No. 928 or 51 Stat. 178.

[4] Not printed.

[5] A convention for the promotion of inter-American cultural relations was signed at Caracas, Mar. 28, 1954, and entered into force for the United States, Oct. 3, 1957; for text, see Department of State Treaties and Other International Acts Series (TIAS) No. 3936, or *United States Treaties and Other International Agreements* (UST), vol. 8 (pt. 2), p. 1903.

20*b*. *Inter-American Congress of Ministers and Directors of Education . . .*[6]

(The U.S. Position on this item remains to be determined.)

21. *Affirmation of the Historical Interest in the Island of San Salvador.*

The U.S. is prepared to take part in an appropriate act reaffirming the interest of the American Republics in the Island of San Salvador which is now generally recognized as the point of Columbus' first landing in the New World, provided that such a step meets with the support of the majority of the other governments, and that provision is made for obtaining prior agreement of Great Britain, which exercises jurisdiction over the island, and that whatever is decided on can be financed within the limits of the funds available to the Pan American Union.

V. ORGANIZATIONAL AND FUNCTIONAL MATTERS

22. *Inter-American Juridical Committee. (a) Functioning:*

A committee of the Council of the OAS has completed a study of the functioning of the Juridical Committee. We consider the suggestions of this committee and the recommendation of the Inter-American Council of Jurists (No. X, Second meeting)[7] that the Committee establish a fixed period of continuous work (it is now theoretically in continuous session) to be the most effective measure which might be taken in present circumstances to achieve much needed improvement in the Committee's functioning. The length of the fixed period, in our opinion, should not exceed 2½ months a year.

(b) Selection of the Countries to be Members Thereof:

The U.S. position as to which countries it will support for election to the Committee has not been determined, but we will give careful consideration to the candidacies of any countries. (FYI, of special interest is whether the present Latin American members—Argentina, Brazil, Bolivia, Chile, Colombia, Cuba, Mexico, Peru, Venezuela—wish to continue or discontinue this membership. We have been informed of the desire of the Dominican Republic to be chosen for membership.)

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[6] Ellipsis in the source text.

[7] Reference is to the Second Meeting of the Inter-American Council of Jurists, held at Buenos Aires, Apr. 20–May 9, 1952; for additional information and the text of the Final Act adopted by the meeting, containing Resolution X concerning the functioning of the Council of Jurists, see *Annals of the Organization of American States, 1953*, pp. 148 ff.

23. *Committee for Cultural Action:*

(a) Functioning.

Our tentative views are that the Committee could function more effectively if: (1) it were brought into closer working relations with the organs of the OAS working in the cultural field, particularly the Department of Cultural Affairs of the Pan American Union, (2) it were to convene for a fixed period during the course of each year, as has been recommended for the Inter-American Juridical Committee.

(b) Selection of Countries to be Members Thereof.

As in the case of the slate for the Juridical Committee, the Department has not yet arrived at any firm decision as to which countries we shall support for membership on the Committee. (FYI, in the original selection of members to the Committee by the Council of the OAS (1951) the criterion was followed that the four languages should be represented. This policy will probably continue to be observed, in which case the seats held by Mexico and Uruguay would be the only ones open to change. In view of this fact, we do not want to stimulate candidacies but leave this matter up to the Spanish-speaking countries.)

24. *Report* [8] *Submitted by the Pan American Union, etc.*

This report has not as yet been completed. It should furnish a basis for appraising the work of the OAS since the preceding Conference and a basis for giving general guidance for the future. (FYI, should any special problems arise in connection therewith, the Embassy will be informed.)

25. *Inter-American Commission of Women.*

Under this item we expect four separate reports to be presented: (1) a general summary of Commission activities and recommendations since 1948,[9] (2) an analysis of laws affecting women's civil and political rights,[10] (3) a report on the economic status of working women,[11] pursuant to Resolution XXIII [12] of the Ninth Conference in Bogota, and (4) proposals from the IACW for amendments to its Organic Statutes.[13]

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[8] Published as *Report on the Activities of the Organization of American States, 1948–1953* (Washington, 1953).

[9] Submitted to the Tenth Inter-American Conference as Document 24, *Memoria de la Comisión Interamericana de Mujeres, 1948–1953* (Washington, 1953).

[10] Submitted as Document 25, *Derechos Civiles y Politicos de la Mujer de America* (Washington, 1954).

[11] *Preliminary Study on the economic status of working women in the American Republics* (Washington, 1954).

[12] For text, see *Ninth International Conference of American States*, p. 247.

[13] For text of the Organic Statute of the Inter-American Commission of Women, approved as Resolution XXI by the Ninth International Conference of American States, see *ibid.*, p. 243.

On (1) and (2), we expect to support continued work by the IACW along present lines to remove discriminations against women and encourage equal opportunities, taking note of recent progress on equal suffrage, women in public office, professional opportunities, and other matters. We understand that the report to be presented under (3) is a technical study which was completed so recently that the Commission has not had time to review the final text. We believe, therefore, that substantive discussion of the report would be premature, and Conference action should be limited to noting it and referring it back to the Commission for appropriate recommendations, with the understanding that it will first be circulated to governments and interested international agencies, including the ILO, for comment. On (4) we are prepared to support minor amendments which will aid in efficient functioning of the Commission provided these do not alter its basic organization and objectives, and may offer some additional suggestions along this line. We also will be prepared to favor referral of the problem back to the Commission itself, recognizing that it would be appropriate for the Commission, as an inter-American Specialized Organization, to modify its statutes.

26. *Inter-American Specialized Conferences . . . :* [14] *Standards With Reference Thereto:* [15]

The "Standards" to be considered by the Conference were adopted by the Council of the OAS in 1949 to guide it in carrying out its responsibilities, under Articles 93 and 94 of the Charter, with regard to the planning and coordination of inter-American technical meetings. The "Standards" have been submitted to the Tenth Conference so that they may be adopted for the OAS as a whole. In the belief that inter-American cooperation through conferences may be made both more effective and, in some cases, more economical, the United States has strongly supported the Council's efforts to carry out these responsibilities and considers the present "Standards" generally satisfactory. The U.S. may propose certain modifications for greater clarity and to insure that the provisions of the Charter will actually be applied in each case before it is decided that a forthcoming meeting is to be a "Specialized Conference" as defined in the Charter.

27. *Administrative and Fiscal Policy of the OAS.*

In introducing this topic, Brazil indicated that the Conference might consider: (1) new basis for financing; (2) possibilities of payment of quotas in national currencies; and (3) decentralization of certain administrative services of the PAU. It has, however, submitted no specific proposals. As the host government and largest contributor to the PAU budget (66%) the U.S. has a vital interest in this subject. As a general policy in these matters and without wishing to prejudge what the Brazilians propose, the U.S. believes that fiscal and administrative issues can be more adequately dealt with by the Council of the OAS. The Council, whose competence under the Charter encompasses such matters, is in a position to devote the time and effort which these highly technical and complex issues require. (FYI, we had serious misgivings regarding inclusion of this item on the agenda and abstained in the vote. It is feared that without adequate preparation the Conference may take hasty, ill-advised action which would seriously undermine the functioning of the OAS, particularly with respect to proposals for decentralizing the Pan American Union in various other American republics, and as a corollary, permitting payment of quotas in national currencies, which would have a special appeal to the Latin Americans. In an effort to minimize this risk, the U.S. succeeded in getting the Council of the OAS to request the Secretary General to prepare a special study for presentation to the Tenth Conference covering these two points. Despite repeated inquiries, the Brazilians have given us no indication as to what they intend to propose. The Embassy, is, therefore, requested to be particularly alert for any information regarding any proposals to be made under this subject.)

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[14] Ellipsis in the source text.

[15] Reference is to the "Standards for the Exercise of the Authority of the Council with Respect to Specialized Conferences", approved by the COAS, Apr. 21, 1949; for text, see *Handbook for Delegates*, p. 186.

28. *Designation of the Place of the Eleventh Inter-American Conference.*[16]

Before arriving at any decision the U.S. would like to know the wishes of the other American republics with respect to this matter. Two countries have expressed an interest in the hostship, and we have indicated that we would be glad to take their request into consideration in determining our position. (FYI, in the selection of sites of inter-American meetings the U.S. generally follows the lead of the majority of the other American republics. The two countries which have indicated their interest in sponsoring the Eleventh Conference are the Dominican Republic and Ecuador. There has been some indication that Costa Rica might also have an interest. Since with the Caracas Conference, inter-American conferences will have been held in all the major capitals, the selection of the site for the Eleventh Conference may turn on whether to begin a second round with the major capitals or move on to the smaller ones, few, if any, of which have adequate facilities for a conference of this size.)

SMITH

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[16] Quito, Ecuador was designated as the site for the Eleventh Inter-American Conference.

OAS files, lot 60 D 665, "Military matters—Agenda"

Memorandum by the United States Representative to the Council of the Organization of American States (Dreier) to the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] January 28, 1954.

The Defense Department, speaking through General Webster, who is designated their spokesman for Tenth Inter-American Conference matters, has repeatedly taken the position that it wishes to have no military subjects discussed at the Tenth Inter-American Conference.

After Amb. Zuleta had recommended to us that some resolution be adopted at the Conference, confirming and possibly improving upon the resolutions on military cooperation approved at the Fourth Meeting of Foreign Ministers in 1951,[1] we went back to the Defense Department and called to their attention the arguments advanced by Amb. Zuleta. We informed the Defense Department that we shared in some measure the feeling of Amb. Zuleta that a failure by the Conference to adopt any resolution supporting the previous ones on military policy would be interpreted by the Latin Americans as reflecting a drop in our interest in inter-American military cooperation along those lines. Nevertheless, the Defense Department has come back with a very firm statement that it would be undesirable in their viewpoint to have any such subjects brought up.

The attached letter [2] to General Webster replies to his last communication [3] on this subject, and is drafted with the intention of making very clear that we place full responsibility on the Defense Department for this decision.

Incidentally, it seems to me that in view of the position taken by the Defense Department, and the fact that we should be able to make it stick with the Conference, there is absolutely no need to include any representative of that Department on the U.S. delegation.

I recommend your approval of the letter and of the position expressed above regarding the delegation.[4]

JOHN C. DREIER

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[1] Reference is to the Fourth Meeting of Consultation of Ministers of Foreign Affairs of American Republics, held in Washington, Mar. 26–Apr. 7, 1951; for text of the resolutions adopted by the conference, see *Fourth Meeting of Consultation of Ministers of Foreign Affairs: Proceedings* (Washington, 1951). For documentation relating to the meeting, see *Foreign Relations*, 1951, vol. II, pp. 925 ff.

[2] Not printed.

[3] Reference is to a letter from Major General Webster to Ambassador Dreier, dated Jan. 8, 1954, in which Major General Webster stated in part the following: "It has been concluded that the introduction of a resolution calling for the Governments to report on their activities in accordance with Resolution II [adopted by the Fourth Meeting of Consultation] would be inopportune, since it might evoke discussion that would be embarrassing to the Department of Defense." (Department of Defense files)

[4] The source text indicates that Mr. Cabot approved the action recommended by Ambassador Dreier; the letter to Major General Webster went out under date of Jan. 28, 1954.

362/2-1054

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Acting Secretary of State [1]

SECRET [WASHINGTON,] February 10, 1954.

Subject: Position on Communism for the Tenth Inter-American Conference.

Discussion: There is attached a copy of the position paper (Tab A)[2] for our Delegation to the Tenth Inter-American Conference on the subject "Intervention of International Communism in the American Republics". This paper has been prepared by a Working Group representing ARA, L, SCA, and R in the Department, and the Departments of Defense, Justice and CIA. It is being submitted to you for review and approval.[3] I hope it will be possible to meet with you sometime this Friday to discuss this paper.

The U.S. position envisages three principal objectives: (1) to emphasize and dramatize through a political declaration (Tab B)[4] the fact that the communist movement is international in scope and directed from Moscow, that as such it constitutes intervention in the affairs of the Americas, and that a situation in which there is effective intervention controlling the government of an American State would constitute grounds for invoking the consultative procedure under the Rio Treaty;[5] (2) to focus attention on certain specific problems regarding communist subversive activities in the Hemisphere through resolutions (Tab C)[4] calling upon the American governments to take appropriate measures to control the free movement of communist agents, expose the sources of communist propaganda, and exchange information on communist activities to facilitate the carrying out of these measures; and (3) to lay the groundwork for positive action by the OAS against Communist penetration in the Hemisphere, such as that taking place in Guatemala.

There is also enclosed a guidance memorandum (Tab D)[6] prepared in ARA setting forth the course of action the Delegation should follow in the event that Guatemala precipitates a discussion of the situation there by attacking the U.S. with charges of intervention. The tactic outlined is for the Delegation to move promptly and vigorously to the counterattack, encouraging other like-minded countries to join with the U.S. The object of this counter-offensive would be to make clear the extent of communist infiltration and influence in Guatemala. The annexes referred to in the memorandum are in preparation.

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[1] Drafted by William G. Bowdler of the Office of Regional American Affairs; concurred in by the Office of the Legal Adviser and the Office of the Administrator, Bureau of Security and Consular Affairs.

[2] Printed as Annex 1—Tab A below.

[3] Department of State files indicate that on Feb. 12, 1954, Acting Secretary Smith approved the U.S. position on Communism for the Tenth Inter-American Conference.

[4] Not printed.

[5] For text of the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948, see TIAS No. 1838 or 62 Stat. (pt. 2) 1691.

[6] Printed as Annex 2—Tab D below.

Recommendation: That you review the attached paper (Tab A) prior to meeting [7] with me to discuss them.

[Annex 1—Tab A]

Paper Prepared in the Department of State

CONFIDENTIAL
XIA D–5/4 [8]

TENTH INTER-AMERICAN CONFERENCE, MARCH 1954

Intervention of International Communism in the American Republics

PROBLEM

What action should the United States propose or support at the Tenth Inter-American Conference under the agenda item "Intervention of International Communism in the American Republics", which was included on the agenda at the initiative of the United States.

UNITED STATES POSITION

A. *Substance*

The United States should seek action by the Conference under the above-mentioned agenda item to counteract and oppose the intervention of international communism in the American republics, and to that end seek the adoption of a resolution or resolutions covering the following:

1. Call attention to the international character of the Communist movement and the control from Moscow of its activities everywhere.
2. Declare the activities of international Communism to constitute intervention in American affairs.
3. Condemn such intervention as contrary to OAS principles.

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[7] No record of the referenced meeting was found in Department of State files.

[8] Official documents prepared for the Tenth Inter-American Conference bore series indicators. Position papers were designated XIA (Tenth Inter-American), D–1 through 28, corresponding exactly to numbered agenda items. This paper is revision number 4 of the U.S. position concerning agenda item 5 ("Intervention of International Communism in the American Republics"). Four annexes to this paper, A–D, are not printed.

4. Express the firm intent of the American Governments to take the necessary steps to prevent the intervention in American affairs of the international Communist movement.

5. Declare that in the event of effective intervention by the international communist movement, dominating or controlling the political institutions of an American State, such a situation would constitute grounds for invoking the procedure of consultation under the Treaty of Rio de Janeiro.

6. Reiterate the adherence of the American republics to democratic principles and

7. Recommend specific steps with regard to the following individual problems:

a. Travel Controls—With a view to preventing the movement of individuals traveling in the interests of international communism or its instrumentalities, the Conference should recommend that the American republics take the necessary steps, by means of:

(i) Visa Controls—to prevent the entry of such individuals into their respective jurisdictions.

(ii) Passports Controls—to prevent the voluntary departure of such individuals who are their nationals from their respective jurisdiction.

(iii) Control of illicit travel—to prevent the clandestine or illegal travel, including the abuse and misuse of travel documents of such individuals into and out of their respective jurisdictions.

In carrying out the foregoing, the Conference should support the principle of freedom of transit, while recommending that abuse of this freedom by communists be prevented.

b. Communist Propaganda—The Conference should recommend that the American republics take the necessary measures to force disclosure of the identity of the communist conspirators or their instrumentalities who are responsible for spreading false propaganda, the sources of their funds, and the nature of their activities, and that the American republics cooperate with one another to the end that this false propaganda, regardless of its place of origin, may be known for what it is by all the peoples of the hemisphere.

c. Exchange of Information—The Conference should call attention to the importance of implementing Resolution 32,[9] paragraph 4, of the Ninth Inter-American Conference held at Bogotá, and in approximately the same language as Resolution 32, paragraph 4, recommend the exchange of information among the American republics which can help them in carrying out the measures recommended by the Tenth Conference with regard to international communism.

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[9] For the text of the referenced resolution, see *Ninth International Conference of American States*, p. 266.

B. *Tactics*

1. *Sponsoring and Co-Sponsoring*—The United States should sponsor a resolution or resolutions to accomplish the foregoing. Whether the United States should invite other countries to co-sponsor would depend on which governments would be willing to co-sponsor. Our policy requires us to steer a middle course between extremists to whom any change or progress not advocated by the regime in power is communism and democratic groups who do not have a sufficient appreciation for the danger of communism. It would be better for the U.S. to avoid any co-sponsors if we could not get as co-sponsors anyone other than some of the entrenched, authoritarian governments. The United States should discuss our position on this agenda topic with other governments, as appropriate, and decide on the basis of these discussions whether to invite other countries to co-sponsor. If it does not appear likely that a well balanced group of co-sponsors can be obtained it would be better to sponsor the resolutions by ourselves.

The foregoing concerning sponsoring and co-sponsoring would not preclude our suggesting that another government or governments sponsor a resolution without United States co-sponsorship, should this appear desirable.

2. *The Pan American Union Study*—The PAU study on "Strengthening of Internal Security" [10] pursuant to Resolution VIII of the Fourth Meeting of Ministers of Foreign Affairs at Washington in 1951 may prove useful during the discussions before and during the Conference. Care should be used, however, not to imply an endorsement of all its conclusions. We should seek to avoid a situation where we must vote on the acceptance or rejection of the conclusions of the study.

C. *Draft Resolutions*

Resolutions along the lines of the attached draft resolutions (Annexes A–D) would achieve the U.S. position. These are not intended to be hard and fast texts, since the delegation will obviously need a certain latitude in order to accomplish the U.S. objectives.

DISCUSSION

The United States proposed this item for the agenda and all of the American republics, except Guatemala, approved the proposal.

In proposing the inclusion of this topic the United States suggested that under this item the Tenth Conference should:

1. Examine and call attention to the intervention of international communism in American affairs, including efforts to weaken the fabric

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[10] Published by the Pan American Union in 1953; a copy is in file 361.01/9–953.

of inter-American solidarity and to subvert genuine national social and political movements to its own ends.

2. Reaffirm the faith of the peoples of the Hemisphere in the ideal and reality of true democracy as the avenue of effective social and political progress of the peoples of the Americas.

3. Reaffirm the strong stand previously taken by the Organization of American States against the intervention of international communism in the affairs of the American republics.

4. Consider appropriate recommendations for further effective steps to counteract the intervention of international communism in the American republics.

The first three of these points would be covered by a general political declaration.

A. *Political Declaration*

The political declaration should accomplish the following (these correspond to paragraphs numbered 1 through 5 of the "U.S. Position" section):

1. Call attention to the international character of the Communist movement and the control from Moscow of its activities everywhere.

The following are examples of the activities to which attention should be called:

a. Subversion of genuine national, social, and political movements.
b. Subversion of constitutional order and the legal processes of government.
c. Distortion and exploitation of legitimate differences between friendly governments.
d. Dissemination of false propaganda direced at spreading suspicion, fear, and animosities among the peoples of the American republics.
e. Abuse of freedom of transit, including clandestine and illicit travel and the misuse of travel documents.

Sabotage and espionage are not included in this list. Resolution VIII of the Fourth Meeting of Foreign Ministers called for a study by the PAU of these subjects among others. We would have difficulty in accepting the conclusions of the PAU Study on these subjects. See Discussion section on PAU Study under "Tactics", page 12. We will therefore have to exercise care in the emphasis which we give to the subjects. It would, however, be useful to mention sabotage and espionage as specific types of subversive activities in the preamble or elsewhere in one ore more of our resolutions.

The declaration should recognize that the foregoing activities are influenced or directed by a foreign power.

2. Declare the activities of international communism to constitute intervention in American affairs.

The activities of international communism within the American republics should be declared to be intervention in the internal and regional affairs of the American republics, threatening the personality of each state and the liberties enjoyed by its citizens and interfering with the constructive development of inter-American relations. Cf. Article 15 of the OAS Charter.[11]

3. Condemn such intervention as contrary to OAS principles.

After the activities of international communism have been declared to constitute intervention, it is logical for the American republics to condemn them, since as intervention, they are contrary to Article 15 of the OAS Charter on non-intervention, and other inter-American principles—such as sovereignty, solidarity, and independence.

4. Express the firm intent of the American Governments to take the necessary steps to prevent the intervention in American affairs of the international communist movement.

Such a general expression of intent would have value in itself as a notice to the world of the intentions of the American republics. It would also provide a basis for future suggestions to the American republics for specific kinds of action which might not have been recommended specifically by the Tenth Conference.

5. Declare that in the event of effective intervention by the international communist movement, dominating or controlling the political institutions of an American state, such a situation would constitute grounds for invoking the procedure of consultation under the Treaty of Rio de Janeiro.

The inclusion of such a provision in the resolution would lay the groundwork for the calling of a meeting of Consultation should the situation in any country at a later date make such action, in our view, desirable. This provision, therefore, must be considered as part of the educational, preparatory work which is necessary to pave the way for stronger action through the OAS in regard to Communism. At the same time it would constitute a warning, indicating the concern which all of the other American states felt about the communist problem. In proposing or supporting this provision the United States delegation should avoid any implication that the conditions described therein particularly the phrase "dominating or controlling the political institutions of an American State", constitute the only test of communist intervention justifying consultation under Article 6 of the Rio Treaty, which reads as follows:

> "If the inviolability or the integrity of the territory or the sovereignty or political independence of any American State should be affected by an aggression which is not an armed attack or by an extra-continen-

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[11] For text of the Charter, signed at Bogotá, Apr. 30, 1948, and entered into force for the United States, Dec. 13, 1951, see TIAS No. 2361 or 2 UST (pt. 2) 2394.

tal or intra-continental conflict, or by any other fact or situation that might endanger the peace of America, the Organ of Consultation shall meet immediately in order to agree on the measures which must be taken in case of aggression to assist the victim of the aggression or, in any case, the measures which should be taken for the common defense and for the maintenance of the peace and security of the Continent."

The position outlined in this paper does not envisage any explicit reference to Guatemala by the U.S. Delegation. It is felt that it would not be useful or desirable for the U.S. to take the initiative in attacking Guatemala in an inter-American gathering because of the charges of intervention which would result. On the other hand it is probable that Guatemala herself may promote a discussion of her controversy with her Central American neighbors and the United States along the lines of the "white paper" issued on January 29, 1954.[12] A memorandum[13] discussing the possible moves Guatemala may make at the Conference and our position in regard thereto, will be available for the use of the Delegation at the Conference.

6. Reiterate the adherence of the American republics to democratic principles.

The declaration should also contain a positive statement in support of principles of American democracy. This could be in the form of simple reaffirmation along lines of point 2 of the suggestions made by the United States when submitting the agenda item. It might also include an assertion by the American republics that they will continue to strengthen their democratic institutions. While there may be a separate resolution on Human Rights under item No. 13 of the Agenda, it would be well to include a brief statement here in order to make clear that what is being attacked is communism and not true democracy. Even if we were not to include a section in support of democracy, some other delegation is almost sure to do so, since the point was covered in Resolution VIII of Washington and Resolution 32 of Bototá. By including it at the outset we would have more control over its content.

[Here follows discussion of how the proposed United States position concerning Communism differed from that contained in Resolution 32 adopted by the Ninth International Conference of American States.]

B. *Recommendations for Specific Steps with Regard to Individual Problems*

1. *Travel Controls*—International communism operates through agents who must be able to impart intelligence and receive instructions in

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[12] Reference is to a statement issued by the Guatemalan Presidential Information Office charging that the United States had acquiesced in a conspiracy by several nations against Guatemala; a translation of the text of the statement is enclosed with despatch 653, from Guatemala City, dated Feb. 1, 1954, not printed. (714.00/2-154) For the response of the United States, see Department of State press release 42, dated Jan. 30, 1954, in the Department of State *Bulletin*, Feb. 15, 1954, pp. 251-252.

[13] Not found in Department of State files.

order to organize and carry out their activities. Much of communist activity in the Hemisphere is carried on by local communists. If the communist agents were deprived of freedom to travel they would be hampered in developing new local leaders; their contacts with existing leaders would be greatly hampered; and their ability to carry out the party-line would be greatly reduced.

[Here follows further discussion concerning travel controls.]

The Fourth Meeting of Foreign Ministers (Resolution VIII) recommended to the Governments of the American states that they regulate "transit across international boundaries of those foreigners who there is reason to expect will attempt to carry out subversive acts against the defense of the American Continent".

The U.S. position outlined above goes further in that it asks the American republics not merely *to regulate* but *to prevent* travel. It also goes further in that Resolution VIII of Washington relates to transit of persons "who there is reason to expect will *attempt to carry out subversive acts against the defense* of the American Continent". Whereas the U.S. position would simply require that the individuals were traveling *in the interests of international communism.*

The PAU study "Strengthening of Internal Security" stresses the value of the principle of freedom of transit and states that it should not be limited except by measures the object of which is to prevent "abuse" by real agents of subversive action. The study interprets the provisions of Resolution VIII with regard to travel to apply only to persons with respect to whom it has been proved, or real evidence exists, that they are acting as agents of international communism (PAU Study, paragraphs 133 and 134). The U.S. should not accept this interpretation of Resolution VIII. The U.S. position is somewhat broader than the conclusion of the Pan American Union Study in that it does not require proof or existence of evidence that persons are acting as agents of international communism but simply that they are traveling in the interests of international communism. It is our position that anyone traveling in the interests of communism is in fact part of the whole subversive program of international communism. The U.S. position is also a bit more positive on actual prevention of travel, although the PAU study does come fairly close to this position (PAU Study, paragraph 137).

2. *Communist Propaganda*—One of the methods whereby the international communist conspiracy imposes itself upon free peoples is the subversion of men's minds by false propaganda. International communism today employs all of the methods and patterns of subversive propaganda, including falsehood, the poisoning of public opinion with half-truths, and irresponsible slander, relying on the fact that even subsequent refutation does not destroy entirely the harm done by doubts previously aroused.

An effective way of dealing with communist propaganda is to make a public disclosure of the activities of the communist propagandists and an identification of the propaganda as communist. Such disclosure is entirely consistent with the democratic idea of freedom of the press. The PAU Study contemplates identification of communist propaganda (PAU Study, paragraph 122), suppression (paragraph 123), and punishment (paragraph 124). The U.S. position treats only of the first of these, viz. identification, since U.S. laws do not permit suppression and punishment unless there is a violation of the laws requiring registration and identification. If U.S. laws were to go further they would run the risk of violating one of the basic concepts of our Government as embodied in the Bill of Rights of the Constitution, viz. freedom of speech and of the press.

3. *Exchange of Information*—In Resolution 32, paragraph 4, of the Bogotá Conference the American republics resolved to proceed with a full exchange of information concerning any of the subversive activities mentioned in the resolution that are carried on within their respective jurisdictions.

Resolution VIII of Washington does not call for exchange of information, but a "whereas" clause of that resolution indicates that since subversive action recognizes no boundaries a high degree of cooperation is necessary among the American republics to eradicate the threat of subversive activity.

An essential element in the adequate enforcement of the extended travel controls contemplated above is the continued exchange of information among the American republics concerning the identity and movement of individuals who there is reason to believe are traveling in the interests of international communism. Similarly, the identification of the sources of communist propaganda may be promoted by exchange of information concerning the identity of the communist conspirators or their instrumentalities who are responsible for spreading the false propaganda.

The U.S. should therefore propose that the Conference call attention to the importance of implementing Resolution 32, paragraph 4, of the Final Act of Bogotá and in approximately the same language as Resolution 32, paragraph 4, recommend the exchange of information among the American republics which can help them in carrying out the measures recommended by the Tenth Conference with regard to international communism. It is important to follow as closely as possible the wording of that resolution so that our obligations are not materially broadened on this score. However, it would seem that the information to be exchanged should not be limited to information concerning activities that are carried on *within their respective jurisdiction,* as was the case in Resolution 32. If a government has information concerning subversive activities going on or contemplated in another country it might be mutually useful for the information to be given to the government of that country. The PAU Study formulates conclusions with regard to various forms of subversive activities and points out, whenever this seemed proper to the authors of the Study, the appropriateness of exchange of information (PAU Study, paragraph 112). Thus exchange of information is recommended with regard to communist propaganda (paragraph 123) and abuse of freedom of travel (paragraph 137). The U.S. position has about the same emphasis as the PAU Study on exchange of information.

4. *Outlawing Communist Party*—At the present time the Communist Party is not outlawed in the United States, and therefore the United States should not propose or favor action by the Conference recommending the outlawing of the Party. Should there be a change in policy with regard to the outlawing of the Party in the United States prior to action by the Conference, the position to be taken by the United States at the Conference should be reviewed.

C. *Tactics*

1. *Sponsoring and Co-sponsoring*—The U.S. should be one of the sponsors because we introduced the agenda item and because it will give us greater control of the substance of the resolutions.

Whether we should invite others to co-sponsor depends on whether discussions with other governments indicate a likelihood that a well-balanced group of sponsors could be achieved. We have reason to believe that the Dominican Government, which is representative of the authoritarian tendency in the hemisphere, would like to co-sponsor a resolution with us, and we do not know whether some of the more democratic countries, such as Chile, Costa Rica, and Uruguay, would be willing to do so. The action taken by the Conference would lose in effectiveness if it were to become identified too closely with the more authoritarian of the American republics, since the support of prodemocratic governments and public groups would be prejudiced. On the other hand, if certain democratic groups who do not have a sufficient appreciation for the danger of communism were to control the situation the Conference might not take sufficiently decisive action. We will have to stress a middle course between these two tendencies in the hemisphere and this may mean that it will be more advisable to sponsor the resolution alone.

2. *PAU Study*—Resolution VIII of Washington requests the PAU to make technical studies concerning:

a. The definition, prevention, and punishment, as crimes, of sabotage and espionage.

b. General measures to protect and defend human rights and the democratic system against treason and other subversive acts.

c. Measures to prevent abuse of freedom of transit.

On August 10, 1953, the PAU issued its study. Its first 81 pages contain the substantive portion of the report, including the conclusions (pages 69–87) while more than 300 pages reproduce the texts of various inter-American resolutions and laws of individual governments which relate to the matter of internal security. The study constitutes a highly useful compilation of data and conclusions which each of the American governments should find it desirable to study carefully. The study should also prove useful at the Tenth Conference. It can be used to emphasize the seriousness of the communist threat and the importance of each government dealing effectively with that threat. At the same time, the U.S. cannot give unqualified endorsement to the substance of the report since we might have difficulties in accepting some of its conclusions on technical and legal matters, e.g. we might have difficulty accepting:

a. The conclusion in paragraph 116 that the protection against extradition, which normally is available to the person accused of a political crime, should not be available in the case of sabotage and espionage. Such matters are governed by the provisions of extradition treaties.
b. The conclusion in paragraph 119 that sabotage or espionage includes not only acts against the state but also criminal action that affects the security of another state or the defense of the continent.
c. That sabotage or espionage by a national should be punished as treason (paragraph 119).
d. The suggestions offered with regard to such things as communist diplomatic and consular officers (paragraph 132), controlling communist propaganda (paragraphs 122–124), subversive organizations (paragraphs 125–128), etc.

Accordingly, while we can use the study where it will support our proposals, we should be careful to avoid endorsement of all its conclusions. We should also seek to avoid a situation where we must vote on acceptance of all its conclusions since this might necessitate explanations, reservations, or possibly even negative votes, when obviously it would be much better psychologically to be affirmative under this item than to appear reticent or negative.

[Annex 2—Tab D]

Paper Prepared in the Bureau of Inter-American Affairs

SECRET

Subject: Guatemala and the Discussion of Communism at the Tenth Inter-American Conference

The paper outlining the United States position on the agenda item "Intervention of International Communism in the American Republics" does not call for the United States delegation itself to introduce discussion of the specific Communist situation in Guatemala. This decision is based on both legal and political grounds. It would be difficult for the United States, the most powerful country in the hemisphere, convincingly to maintain that Guatemala constituted a threat to its political independence or territorial integrity, and to invoke the Rio Treaty on those grounds. Politically, the United States should avoid appearing as leading a movement against any one of its small neighbors. Such appearance would inevitably cause opposition from a number of Latin American countries. However, it seems clear that as a result of Guatemala's own action at the Conference, or through other developments, a specific discussion of Communist penetration in Guatemala will take place.

The minimum United States objective at Caracas with respect to the Communist item is to achieve adoption of a resolution which will lay ground work for subsequent positive action against Guatemala by the Organization of American States. Our maximum objective would be the adoption, should conditions permit, of effective multilateral measures against Guatemala at Caracas.

It is clear that Guatemala will attend the Caracas Conference not in the role of defendant but with aggressive intent to disrupt constructive discussion of the Communist problem by making charges of intervention against the United States. The basic Guatemalan theme has already been made clear by statements of Guatemalan officials, including former Ambassador to the United States Guillermo Toriello, who as Foreign Minister is expected to head the Guatemalan delegation to Caracas, and to present the Guatemalan case there with cleverness and determination. The basic Guatemalan premise is that the United States is engaged in "imperialist" aggression against Guatemala in order to protect the interests of American companies, principally the United Fruit Company which have extensive operations in Guatemala and which are allegedly opposing Guatemala's efforts to carry out social and economic reforms. This oft-repeated charge has more recently been embellished by unfounded accusations of Guatemalan officials that Secretary Dulles and Assistant Secretary Cabot are among officials of the Department of State who have private vested interests in the United Fruit Company, and who are using their official positions in this Government to attack Guatemala; and that the United States has "acquiesced" in a huge plot financed by the United Fruit Company and supported by various Guatemalan nationals in exile and Governments of neighboring countries to overthrow the Guatemalan Government.

The United States must exercise leadership at Caracas to insure: (1) that Guatemala does not divert the Conference from constructive discussion of agenda item five; (2) that Guatemala does not achieve prolonged discussion of alleged United States imperialism under any Conference agenda item; and (3) that a Guatemalan attempt to wrest the initiative is countered by full exposure of Communist penetration of that country. Such exposure should be made by a delegation or delegations other than ours, preferably of countries not on the extreme right wing.

In considering the possible tactics of the Guatemalan delegation at the Conference, attention must be paid to the following possibilities: (1) the Guatemalan delegate may enter the discussion of agenda item five by impugning the motives of this Government in sponsoring such item; (2) the Guatemalan delegate may, in an opening speech, make a simple accusation against the United States along the lines indicated above without calling for any other action; (3) the Guatemalan delegation may attempt to inject their complaint against the United States into the discussion of some other agenda item, such as that on "Peaceful Relations Among Governments"; (4) the Guatemalan delegate may seek the convocation of a meeting of consultation of Foreign Ministers at Caracas to consider charges of United States intervention. (As noted above, the Guatemalan Government on January 29, 1954, issued a press release carrying charges of an invasion plot by certain elements in Guatemala and neighboring countries, accompanied by alleged documentary evidence in support thereof, including an allusion that the United States Government acquiesced to the conspiracy. The Guatemalan Government may intend to produce further alleged evidence in this connection at Caracas.)

From the United States viewpoint, the injection by Guatemala of its charges into the discussion of item five would be more advantageous than elsewhere in the Conference proceedings since this would constitute an invitation by Guatemala itself to discuss and expose the extent of Communist influence in that country. If the Guatemalan charges are released in plenary session or in connection with an item other than item five, it should be made clear by the United States delegation that the United States considers these obviously false charges irrelevant to any item on the agenda of the Conference, except insofar as they reveal an attempt on the part of the international Communist conspiracy to prevent constructive action under item five. If any further consideration is to be given the charges, they should be given under item five. The United States should oppose introduction of a new agenda item on this subject by Guatemala and should raise a point of order if an attempt is made to consider the Guatemalan charges under any item other than item five. If the question goes to the Steering Committee, the United States should take the position that the only item under which it can correctly be discussed is item five.

United States Position

In seeking to achieve our minimum objective, it is intended to press for adoption of a resolution which, without mentioning Guatemala by name, could be supported by every nation but Guatemala. Adoption of our proposed resolution, especially the paragraph covering point number five on page one of the position paper on Guatemala,[14] would in effect express the serious concern of the OAS over the penetration of Communism in Guatemala and would lay the necessary ground work for subsequent positive multilateral action. Furthermore, the United States delegation should encourage a friendly delegation to propose that the United States draft resolution be expanded so as to authorize the COAS, in event of a request by any American State for convocation of the Organ of Consultation under the Rio Treaty, to carry out an investigation of the extent to which Communist penetration of any given country, (e.g. Guatemala), constitutes basis for application of Article VI of the Treaty.

The United States should seek to prevent the discussion of alleged American intervention at the Conference. However, if and when Guatemala introduces the subject, the United States should immediately cause it to be linked with the subject of Communist penetration of Guatemala. Having established the link, the United States should seek to confine discussion to Communist penetration, and prevent return to the topic of alleged intervention. The United States should make it clear that the two questions of Communist penetration of the hemisphere and treatment of American commercial interests abroad are entirely separate; and that the United States Government would continue to regard the Communist growth in Guatemala as potentially dangerous to the hemisphere even if the Guatemalan Government were to make, through the available normal methods, a complete and satisfactory settlement of its differences with American companies.

Annex A[15] contains for the information of the delegation several of the more evident points which the Guatemalan delegation is expected to make concerning alleged United States intervention, together with the United States positions thereon.

Annex B[15] to this paper contains a summary of information concerning Communist penetration of Guatemala which can be made available for the use of other delegations in the debate on Communism at Caracas.

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[14] Presumably the reference is to the draft policy paper, Aug. 19, 1953, p. 1074.

[15] Not printed.

362/2-1254

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Acting Secretary of State

SECRET [WASHINGTON,] February 12, 1954.

Subject: Latin American Policy[1]

In accordance with your instructions of this morning, there is attached a memorandum outlining major problems in our relations with the other American republics to be used as the basis for your meeting[2] with the President next week.

[Annex]

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot)

SECRET [WASHINGTON,] February 15, 1954.

A. Pending Latin American matters on which I have not been able to get adequate favorable action despite every effort:

1. The "package deal"[3] (draft letter to Mr. Dodge attached, Tab A).[4] Some of the items in this were included in our regular budget request but ran into unyielding opposition at relatively low levels at which our total Latin American policy was clearly not taken into account. I have consequently come to feel that the only way to get a Latin American program through is to present an integrated program showing how little is required to carry out the Eisenhower Report recommendations and fulfill Republican pledges.

In a meeting on February 11[2] in Mr. Lourie's office, attended by Mr. Ralph Burton and Mr. Hart Perry of the Bureau of the Budget, as well as Mr. Wailes[5] and Mr. Nolting, Budget's position was to tear the program item from item, say that any increases should come through readjusting appropriations in the presently-recommended budget, and point to trivial increases already embodied in a few items as a possible talking point at Caracas. They did agree to go ahead with the authorization for the Panama facilities, for which appropriations will perhaps not be necessary until a future budget. They did hold out a very slight hope for an increased appropriation for the Inter-American Highway. At best, however, their position would wreck the program and the possibility of our asserting that we have done anything effective to implement the Eisenhower Report. Virtually the only steps we have taken to carry its recommendations into effect (trade, tax incentives) have been taken on a world wide basis.

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[1] In a memorandum to Acting Secretary of State Smith, dated Feb. 11, 1954, Mr. Cabot stated in part that although the Tenth Inter-American Conference would soon convene, the United States was "still without a program which will be in any way satisfying to the other American republics", that the major obstacle to the development of an effective program for Latin America was that "it almost invariably cuts across other policies" which are "generally considered overriding", and he recommended that "the question of Latin American policy be urgently considered at the highest level." (362/2-1154)

[2] No record of this meeting was found in Department of State files.

[3] Reference is to the revised budget request recommended by ARA in implementation of the Milton Eisenhower report totaling approximately $85 million, which represented an increase of about $17 million over the amount already included in the 1955 budget request for Latin America. For additional documentation on this subject, see pp. 196 ff.

[4] Not printed.

[5] Edward T. Wailes, Assistant Secretary of State for Personnel and Administration.

2. Since our meeting at the White House on January 21,[6] the matter of drafting a position regarding loan policy for Caracas has been referred to a subcommittee of Assistant Secretaries Overby, Anderson and myself; Mr. Corbett of State and Mr. deBeers[7] of Treasury have also participated. We are still unable to agree on any statement about the Export-Import Bank which I consider adequately reassuring to the other American republics, and it is clear that Mr. Overby will not go beyond a very strict interpretation of the agreement[8] between the International Bank and the Export-Import Bank approved by the NAC on January 22. He is now doing a redraft in an effort to meet our objections. The position of Treasury in this entire matter is clearly inconsistent with the Latin American policy statement adopted at the NSC meeting on March 18, 1953,[9] the pertinent paragraph of which reads as follows:

> "7. The United States should seek to assist in the economic development of Latin America by:[10]
>
> . . . .
>
> "*b.* Continuing the present level of International Bank loans and Export-Import Bank loans and, where appropriate, accelerating and increasing them, as a necessary supplement to foreign private investment."

3. On February 10 at the staff meeting,[11] you took a favorable view of my suggestion that the President issue a statement regarding the

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[6] A memorandum of conversation, summarizing the referenced meeting, by Mr. Cabot, dated Jan. 21, 1954, is printed on p. 206.

[7] John S. deBeers, Chief, Latin American Division, Office of International Finance.

[8] Reference is to the "Statement of Principles Governing the United States Position in Respect to Loans by the Export-Import Bank of Washington and the International Bank for Reconstruction and Development", approved at the 206th meeting of the National Advisory Council; for text and additional documentation, see volume I.

[9] Reference is to NSC 144/1, a report on "United States Objectives and Courses of Action With Respect to Latin America", approved by President Eisenhower on Mar. 18, 1953; for text, see p. 6.

[10] The following omission indicated in the source text.

[11] A memorandum of conversation summarizing the referenced meeting, dated Feb. 10, 1954, by Director of the Executive Secretariat Walter K. Scott, is contained in Secretary's Staff Meetings, lot 63 D 75, "Minutes, 1954–1955".

coffee situation which would be reassuring to the coffee-producing countries. Finding that the President was having a press conference at 10:30,[12] I telephoned Dr. Hauge at the White House and emphasized to him the desirability of having the President issue a statement. Dr. Hauge was rather dubious about this. He pointed out that any such statement might be resented by the American public or by Congress, or considered as prejudging the FTC and other investigations.[13] He finally agreed to suggest to the President that he make some general statement indicating that the coffee situation should not be permitted to disturb our relations with our sister republics. I gather that, because no question was asked at the conference, no statement was made. Latin American public opinion is becoming more and more aroused regarding this issue and several of the republics which are most friendly to us (Brazil, Colombia) are particularly bitter. A good presidential statement should help materially at Caracas.[14]

4. Although we have been trying since June to obtain an acceptable position statement from the Pentagon regarding labor policy, we are still unable to do so despite the President's statement at his meeting with President Remón [15] (later reiterated in the Joint Statement [16]) that our international commitment in note of March 2, 1936 [17] would be fulfilled. We feel that the minimum that should be done in the Zone today to ease this most vexatious single irritant in United States–Panama relations is:

a. To merge the present dual-wage systems into a single-wage scale and uniformity in treatment of labor;

b. To have this new single scale and uniformity in treatment apply to all U.S. Government agencies operating in the Canal Zone; and

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[12] The record of President Eisenhower's news conference of Feb. 10 is printed in *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954* (Washington, 1960), pp. 245 ff.

[13] Reference is to investigations of rising coffee prices conducted by federal agencies in 1953 and 1954. For the result of the FTC's investigation, see Federal Trade Commission, *Economic report on the investigation of coffee prices, July 30, 1954* (Washington, 1954). For additional documentation, see U.S. Senate, Banking and Currency Committee, *Study of Coffee Prices; hearings before a special subcommittee,* 83d Cong., 2d Sess. (Washington, 1954), and Department of State *Bulletin,* Feb. 15, 1954, pp. 257–258.

[14] Secretary Dulles' address delivered at Caracas, Mar. 4, 1954, contained a statement on coffee; for text of the address, see *ibid.*, Mar. 15, 1954, pp. 379–383, or *USDel Report,* pp. 43–51.

[15] President Remón of Panama visited the United States between Sept. 28 and Oct. 7, 1953; for documentation relating to his visit and his meeting with President Eisenhower on Sept. 28, see pp. 1417 ff.

[16] Reference is to the statement issued by President Eisenhower and President Remón after their meeting; for text, see White House press release dated Oct. 1, 1953, in Department of State *Bulletin,* Oct. 12, 1953, pp. 487–488.

[17] For text of the referenced note, 1 of 16 exchanges of notes accompanying and interpreting the general treaty of friendship and cooperation between the United States and Panama, signed at Washington, Mar. 2, 1936, and entered into force, July 27, 1939, see Department of State Treaty Series (TS) No. 945 or 53 Stat. 1807.

c. To have whatever retirement system finally adopted applied uniformly to non-American employees of all Government agencies in the Zone.

A number of other matters have been only less delayed. For example, no reply has yet been received to comments submitted to the Pentagon for clearance as early as December 21, 1953 on the following items: Panamanian Document "A": [18] Par. 1–4, Panamanian participation in Canal Zone market; Par. 4, Buy American Act; [19] Par. 5, 6, Contraband control; Par. 6, Commissary location; Par. 8, Alcoholic beverage imports; Par. 9, Sales of surplus property; Par. 10, Manufacturing activities in Zone; Par. 12, Repairs to ships; and Par. 13, Sales to ships.

B. We have the following particular problems which continue to cause resentment in the other American republics:

1. We have imposed an 18 percent countervailing duty on Uruguayan wool tops on the basis that Urguay was subsidizing the exports through a multiple exchange rate.[20]

2. We have broken our GATT commitment to Uruguay to lower our meat tariffs.

3. We dumped surplus linseed oil on the market, undercutting Argentina's markets.

4. We have imposed a quota of 2,500,000 bushels of oats, thereby cutting off Argentine importations and leaving several million bushels already under contract with no place to go.

5. After a great deal of publicity regarding the great copper development project at Toquepala (Peru), for which the DMB was to put up $60 million on the basis of a certificate of national necessity, the Export–Import Bank $60 million as a loan, and the American Smelting to supply $48 million of its own funds, the DMB withdrew its certificate and the project is now completely stalled, to Peru's irritation. The development is commercially sound and will be needed to supply the estimated world demand for copper by the time it can be opened.

6. The NSC recently decided that we should not enter the International Tin Agreement.[21] I believe that the Department has just decided to request a reversal of this decision, but as it stands it will cause resentment not only in Bolivia, but also in other countries which believe in price stabilization agreements for primary products.

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[18] Reference is to a proposal presented to the Department of State by the Special Panamanian Mission to the United States in September 1953 calling for, *inter alia,* restrictions on sales by commissaries in the Canal Zone; for a synopsis of the Panamanian proposals, see p. 1423.

[19] Apparent reference to Title III of the Appropriations Act (Public Law 428), approved Mar. 3, 1933; for text of the act, see 47 Stat. 1520. For additional information on the status of "Buy American" legislation as of early 1954, see *Staff Papers Presented to the Commission on Foreign Economic Policy* (Washington, 1954), pp. 315–320.

[20] Secretary Dulles' Mar. 4 address at Caracas contained a statement with respect to wool. See footnote 14, above.

[21] For documentation relating to the decision of the United States not to adhere to the International Tin Agreement, see volume I.

7. We have been unable to reach an agreement with Mexico with regard to migrant labor and on January 15 started operating unilaterally. This had ARA's concurrence because the old agreement[22] did not work in practice, but it has caused some resentment.

8. In August, the Chileans asked us to buy 100,000 tons of accumulated copper. The negotiations are in abeyance with ARA's concurrence because we felt that we should not buy this copper before Chile gave American copper companies fairer treatment and took measures to clean house economically, but it has again caused resentment.

9. There are numerous reports that the Guatemalans plan to raise the issue of intervention at Caracas and it is obvious from reports reaching us from the field that the other American republics are not prepared, even if the problems listed above are satisfactorily adjusted, to take multilateral action against Guatemala at this stage. We are nevertheless being harassed by such items as Senator Margaret Smith's bill[23] connecting Guatemalan Communism with high coffee prices (which would play squarely into the hands of the Guatemalan Communists at Caracas) and Walter Winchell's broadcast calling for a boycott on Guatemalan coffee.

The significance of the above in connection with our position at Caracas is not merely that we will be incapable of meeting, even to a limited extent, the aspirations which Latin America will expect to see fulfilled in Caracas as a result of the various statements which have been made by this Government throughout the past year, but that our efforts to achieve a strong resolution on Communism will be frustrated and weakened by Latin America's feeling that our position does not respond to their needs.

C. Among the steps which the President might still take if he wishes us to go to Caracas with a reasonable minimum Latin American program are the following:

1. Direct Treasury to prepare within a week a statement regarding loan policy which would assure the other American republics of credit facilities not less ample than those which were available to them on January 20, 1953 (or March 18, 1953) and would emphasize the role of the Export-Import Bank, with particular reference to the prospective new use by it of powers available to it, such as guaranties, techniques for tapping private credit, etc. (Tab E).[24]

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[22] Apparent reference to the exchange of notes constituting an agreement between the United States and Mexico relating to agricultural workers, signed at Mexico, Aug. 11, 1951, and entered into force on the same date; for text, see TIAS No. 2331 or 2 UST (pt. 2) 1940. For additional documentation on the agreement, see *Foreign Relations*, 1951, vol. II, pp. 1488 ff.

[23] Apparent reference to Senate resolution 211, introduced by Senator Smith (R.–Maine) on Feb. 8, 1954; for text, see *Congressional Record*, 83d Cong., 2d Sess., vol. 100 (pt. 2), p. 1475.

[24] Not printed.

2. Direct Budget to draft within a week, in concurrence with State, a program for the appropriations necessary for the implementation of our Latin American policy, with particular reference to the Eisenhower Report. Consult with Congressional leaders regarding this program, emphasizing to the Republicans that it represents a party pledge and to the Democrats that in no area of our bipartisan foreign policy is there so little disagreement.

3. Issue at his next press conference as reassuring a statement as possible for the coffee-producing nations, with due regard to Congressional and public opinion. A draft of such a statement is attached (Tab B).[25]

4. Direct State and other interested agencies to formulate urgently a program for the restricted sale under bilateral agreement of surplus foodstuffs in the other American republics, and for the use of local currency so obtained for cultural purposes (Tab C).[25]

5. Direct the Postmaster General[26] to announce, on March 1, a plan to issue within a year a set of twenty commemorative stamps honoring the other American republics. (I have been unable since last March to get an answer to this proposal.) (Tab D)[25]

6. Instruct the pertinent agencies of the Government to give due weight to foreign policy considerations in connection with any proposed commodity stabilization agreement, and not to reject them on the basis of unessential considerations of domestic policy when (as in the tin agreement) foreign policy considerations seem clearly paramount.

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[25] Not printed.

[26] Arthur E. Summerfield.

Secretary's Staff Meetings, lot 63 D 75

Notes of the Secretary's Staff Meeting, Held at the Department of State, 9:15 a.m., February 16, 1954[1]

SECRET

SM N–206

[Here follow a list of those present (24) and discussion of matters unrelated to the Tenth Inter-American Conference.]

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[1] During the period 1952–1960, the Secretary's staff meeting met twice a week. The meetings were attended by the Under Secretary of State, Assistant Secretary of State, certain members of the Executive Secretariat, and certain office directors. A broad range of matters was discussed; the Secretary normally presided.

Caracas Conference

2. The Acting Secretary directed Mr. Cabot, if approached by Treasury officials, to take the line that what is wanted is a positive statement as to what the Export–Import Bank can do for Latin America on a "yes" rather than "no" basis.

The Acting Secretary further instructed Mr. Nolting to attempt to obtain an assurance from Budget that we would be able to make a statement before or at a Caracas conference in connection with the Eisenhower "package proposal." [2] The Acting Secretary added that he felt Budget would be cooperative.

[Here follows discussion of additional matters unrelated to the Tenth Inter-American Conference.]

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[2] The Secretary's Mar. 4 address at Caracas contained a reference to the "package proposal" and a statement concerning Export–Import Bank policy. See footnote 14, p. 295.

362/2–1854 : Circular airgram

The Acting Secretary of State to Certain Diplomatic Offices in the American Republics [1]

CONFIDENTIAL WASHINGTON, February 18, 1954.

Subject: Communist Item on Agenda of Tenth Inter-American Conference

CA–4452. In any further conversations you may have regarding the Communist issue and its possible relationship to the items on the agenda of the Tenth Inter-American Conference, you should bear in mind the importance of preventing the development in Latin American thinking of the idea that their approving a strong resolution against Communism would constitute a concession to the U.S. which could only be justified by concessions on our part to Latin America in the economic field. The fact is that the political-security phase of the OAS relationship can and must stand on its own feet. The U.S., as the most powerful American nation in the OAS, has limited its freedom of action by subscribing to the non-intervention principle. It has also, by subscribing to the principle of collective action based on consultation, given to the relatively weak Latin American states an important voice in determining steps for the protection of U.S. security interests. The issue of Communism in the hemisphere provides a test case to show whether that relationship is a useful and effective one. Obviously if the OAS does not take a reasonably strong stand on a matter of major importance to the U.S. (as well as to the other republics) from the security standpoint, some question must be raised regarding the soundness of the OAS relationship. There is, in principle, no room for bargaining with the political-security field as against the economic field. In the latter, as in the former, the U.S. will continue to attempt to work out with the other republics an increasingly satisfactory and constructive relationship that will stand on its own feet on the basis of realistic considerations, and contribute thereby to broadening the scope of inter-American cooperation.

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[1] Drafted by Ambassador Dreier; cleared with Mr. Atwood.

The foregoing statement is for your background rather than for communication to other governments. However, it is believed that the viewpoint set forth therein should be of interest in connection with any informal conversations which you may have with persons who may advance the theory of bargaining economic versus political-security interests in the OAS.

SMITH

Eisenhower Library, papers as President, Whitman file

Minutes of a Cabinet Meeting, Held at the White House, 10:10 a.m., February 26, 1954 [1]

The following were present:

President Eisenhower

Vice President Nixon
Sec. Dulles, and Under Sec. Smith
Sec. Humphrey
Deputy Sec. of Defense Kyes (for Sec. Wilson)
Attorney General Brownell
Postmaster General Summerfield
Sec. McKay
Sec. Benson
Sec. Weeks
Sec. Mitchell
Sec. Hobby, Under Sec. Rockefeller,[2] and other assistants

Director Dodge
Mr. Flemming
Deputy Director of FOA Wm. M. Rand (for Gov. Stassen)
Chairman Young [3]
Amb. Lodge
Hon Clarence B. Randall
Gov. Adams
Gen. Persons
Mr. Rabb
Gen. Cutler
Dr. Hauge
Mr. Jackson [4]
Mr. Shanley [5]
Mr. Minnich

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[1] These minutes were signed by L. Arthur Minnich, Jr., Assistant Staff Secretary in the White House Office.

[2] Nelson A. Rockefeller, Under Secretary of Health, Education and Welfare.

[3] Philip Young, Chairman, Civil Service Commission.

[4] C. D. Jackson, Special Assistant to the President.

[5] Bernard M. Shanley, Special Counsel to the President.

[Here follows discussion of matters unrelated to the Tenth Inter-American Conference.]

Inter-American Conference at Caracas—Secretary Dulles stated that the major interest of the Latin American countries at this conference would concern economics whereas the chief U.S. interest is to secure a strong anti-Communist resolution which would recognize Communism as an international conspiracy instead of regarding it merely as an indigenous movement. With this objective Secretary Dulles hoped he might give them certain economic reassurances, and he suggested in this respect that no action be taken with regard to wool imports until Congress acts on the pending Presidential proposal and that no attempt would be made to establish controls over the price of coffee. He was reassured on these two points.

Ambassador Lodge called attention to the continued strong support given by our Latin American allies in the United Nations, particularly when European allies have vacillated on important questions such as the Korean Resolution last fall.

Secretary Dulles called attention to pending legislation concerning loans to Latin American countries and he emphasized the desirability of effective action to halt the growth of Communism in South America at this time rather than delay until a situation develops similar to that in China in the 1940's when American aid was too late.

[Here follows discussion of illegal immigration into the United States from Mexico and other matters unrelated to the Tenth Inter-American Conference.]

Conference files, lot 60 D 627, CF 227 : Telegram

The Acting Secretary of State to the Secretary of State, at Caracas

CONFIDENTIAL WASHINGTON, March 6, 1954.

Tedul 25. To give you maximum support the cabinet, March 5 approved in principle a memorandum [1] I presented as basis for announcement by you of administration determination to implement Milton Eisenhower report. Memorandum requested:

(1) That cabinet follow general guidance of President's comment to you in memo January 12 [2] that "I am struck by the fact that a very small loan investment or grant on our part might reap very definite and extensive advantages to US." [3]

(2) That agreed statement policy Export Import Bank be carried out to yield maximum benefit Export Import Bank as instrument national policy;

(3) That support be given specific requests supplemental appropriations exchange persons (strategy on this will be first to attempt restoration house cuts of regular budget request), said American schools, and Inter-American highway ($7 million supplemental request); and

(4) That there be general advance assurance cabinet support such 1956 budget requests as (*a*) increase $2 million or more for technical assistance, (*b*) $8 million total for Inter-American highway, (*c*) $2 million total Rama road Nicaragua, (*d*) increase $2 million USIA, and (*e*) increase $900,000 for Inter-American organizations.

The minute of cabinet meeting [4] indicates State, Commerce, FOA and Budget will determine specific steps to be taken for financing the measures set forth in the memorandum.

Also particular attention cabinet was called to need for redoubling efforts to satisfy Panama on matters which do not affect fundamental rights, e.g. more equitable treatment Panamanian employees in Canal Zone, reduction non-essential commercial competition by US agencies Canal Zone, and legislation and appropriations for economic development fund in lieu change in treaty annuity.

If you consider it especially desirable Milton Eisenhower could come to Caracas at such time as you may indicate. He is inclined to doubt wisdom of his coming particularly view recent comments Drew Pearson column.

SMITH

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[1] The text of the referenced memorandum, with a few minor exceptions, was identical to that of Mr. Woodward's memorandum, dated Mar. 2, 1954, p. 217.

[2] A copy of the referenced memorandum is in file 120.220/1–1254.

[3] For the actual text of President Eisenhower's comment to Secretary Dulles, see footnote 3, p. 217.

[4] A copy of the minutes of the Cabinet meeting, held Mar. 5, 1954, signed by Mr. Minnich, is contained in the Eisenhower Library, papers as President, Whitman file.

Conference files, lot 60 D 627, CF 227 : Telegram

The Acting Secretary of State to the Secretary of State, at Caracas[1]

TOP SECRET EYES ONLY WASHINGTON, March 9, 1954.
NIACT

Tedul 34. Perfectly safe for you to stay until Friday or weekend[2] if necessary to keep anti-Communist resolution moving, and from reports here I am inclined to agree with your advisers there that unless you are present to provide the final spark this resolution may fizzle out. Information in my Tedul 25, March 6,[3] can be communicated quietly to any delegation you think it may influence, and particularly you may wish to tell Colombians that they do not have to give much thought to any additional bill for their Korean participation. Should you wish to include it in some formal statement, actual wording of Cabinet minute is as follows:[4]

"*US–Latin American Relations*

"The Cabinet approved in principle the memorandum presented by Under Secretary Smith as the basis for an announcement at Caracas by Secretary Dulles concerning the Administrations determination to implement Dr. Milton Eisenhowers report. State, Commerce, FOA and Budget will determine the specific steps to be taken for financing the measures set forth in the memorandum. Particular attention was called to the item concerning assistance to Panama.

"It was also agreed that the Colombian Korean War Department matter should be held in abeyance until the outcome of the omnibus bill concerning such debts is known."

SMITH

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[1] Source text bears the following handwritten notation by Mr. O'Connor: "Sec saw."

[2] Secretary Dulles departed from Caracas for Washington on Saturday, Mar. 13, 1954; upon his departure Mr. Holland assumed the Chairmanship of the United States Delegation.

[3] *Supra.*

[4] The following statement does not appear in the minutes of the Cabinet meeting held on Mar. 5; it is apparently quoted from the notes of Cabinet discussion sent to Mr. Stassen by Cabinet Secretary Maxwell M. Rabb under date of Mar. 5 (Eisenhower Library, papers as President, Whitman file).

Eisenhower Library, papers as President, Whiteman file, NCS records

Memorandum of Discussion at the 189th Meeting of the National Security Council on Thursday, March 18, 1954 [1]

TOP SECRET EYES ONLY

The following were present at the 189th meeting of the Council: The President of the United States, presiding; the Vice President of the United States; the Secretary of State; Mr. Kyes for the Secretary of Defense; the Director, Foreign Operations Administration; the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Attorney General (for Items 2 and 3); the Director, Bureau of the Budget; the Chairman, Civil Service Commission (for Item 3); the Chairman, Federal Communications Commission (for Item 4); Admiral Carney for the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; the Assistant to the President; Mr. Cutler and Mr. Jackson, Special Assistants to the President; Ralph N. Stohl and John G. Connell, Jr., Department of Defense (for Item 3); Gen. Porter, Foreign Operations Administration (for Item 4); the NSC Representative on Internal Security; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the chief points taken.

[Here follows discussion relating to East–West trade controls.]

1. *The Caracas Conference*

Secretary Dulles first outlined to the Council the conception of the Monroe Doctrine which he had in mind when he departed for Caracas, as forming the background for the anti-Communist resolution which it had been his chief objective to see adopted by the Foreign Ministers. This was an extension of the Monroe Doctrine to include the concept of outlawing foreign ideologies in the American Republics. Secretary Dulles had believed that if he secured general acceptance of the resolution the United States could operate more effectively to meet Communist subversion in the American Republics and at the same time avoid the charge of interference in the affairs of any other sovereign state. In short, he argued that Communist subversion and subsequent control of any of the American Republics was tantamount to external aggression against such a Republic. Efforts, therefore, to counter such Communist subversion could not rightfully be described as American intervention.

Secretary Dulles admitted that it had not been easy to secure general acceptance of the anti-Communist resolution. There was much in the climate of opinion which militated against quick success. First of all, he had encountered much unhappiness and anxiety with respect to the commercial and financial policies which the Administration was following in Latin America. Beyond that, there were always those who insisted that the anti-Communist resolution was nothing but a pretext to permit American intervention in the internal affairs of the other republics of the hemisphere. It had therefore required two weeks of very intensive work and almost daily meetings with the other Foreign Ministers[2] to change this atmosphere and to secure general agreement to the resolution. Even so, the resolution was certainly not adopted with genuine enthusiasm. Among the complications was the very wide gulf between the Latin American democracies and the nations which were governed by dictatorship. Democratic Uruguay entertained feelings of hostility for dictatorships like Venezuela at least as strong as those it felt for Communism. In any event, the resolution had finally passed by a vote of 17 to 1, with Mexico and Argentina abstaining. Mexico's attitude had, of course, been unfortunate. It could have been worse, however, if the Mexican Foreign Minister, Padilla Nervo, had really thrown himself into the fight against the resolution. His prestige was so very great that if he had chosen to exploit it the results might have been serious. It was fortunate, therefore, that he did not put his heart into opposing us. The real explanation of the Mexican position was the domestic political situation. The Mexican people were still acutely sensitive to any possibility of U.S. interference in Mexican affairs. Argentine abstention, on the other hard, was largely dictated by that country's concern over economic and social matters. We finally agreed, said Secretary Dulles, to the convening of a later conference[3] to deal with these matters, and the Argentinians seemed to be encouraged by our willingness at least to sit down and talk about these issues.

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[1] This memorandum was drawn up by S. Everett Gleason, Deputy Executive Secretary of the NSC, on Mar. 19.

All in all, a quite favorable atmosphere pervaded the conference when Secretary Dulles left, and he felt that he had come to know most of the Latin American Foreign Ministers fairly well.

The Vice President commented that the Congressional reaction to the report which Secretary Dulles had made on the conference had been generally very favorable. Indeed, some of the most outspoken critics of the Administration's foreign policy had made flattering comments on Secretary Dulles' performance.

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[2] Memoranda of conversation between Secretary Dulles and the Foreign Ministers heading the delegations from the respective Latin American countries are contained in Conference files, lot 60 D 627, CF 229.

[3] Reference is to the Meeting of Ministers of Finance or Economy as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, commonly referred to as the Rio Economic Conference, held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation relating to the conference, see pp. 313 ff.

Mr. Cutler then inquired about the resolution against colonialism[4] which had been accepted by all the Latin American Republics but not by the United States, which had abstained. Secretary Dulles described this resolution as a "paper" resolution rather than a document forming the basis for action, as in the case of the anti-Communist resolution. There was no question about widespread bitter feelings in Latin America with respect to the European colonies there. Significantly, however, the United States was not linked with the colonial powers, and this resolution had not been motivated by sentiments unfriendly to the United States.

The National Security Council:[5]

Noted an oral report by the Secretary of State on the principal developments at the Caracas Conference to date.

[Here follows discussion concerning security requirements for government employment, significant world events affecting United States security, and other matters.]

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[4] Apparent reference to Resolution XCVI ("Colonies and Occupied Territories in America"); for text, see *USDel Report*, pp. 159–160.

[5] The following statement constitutes NSC Action No. 1068.

OAS files, lot 60 D 665, "Post-conference—delegation report"

Report Prepared in the Department of State[1]

CONFIDENTIAL [WASHINGTON,] April 1954.

INTRODUCTION

COMMITTEE II—(ECONOMIC MATTERS)

The United States Delegation went to Caracas with the primary objective of obtaining a ringing hemispheric declaration against encroachments of Soviet communism.

Most of the Latin American Delegations went to Caracas chiefly interested in economic problems.

The Conference produced the desired anti-communist resolution, but the Latin American countries fell short of their full objectives of firm commitments by the United States on key economic issues.

The Latin Americans evidently realized before the Conference that the United States would be unwilling at Caracas or at least not ready, to accede to their full economic desires. The lead-off speaker in the general economic debate, Prat of Chile, proposed a special meeting of

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[1] Cover sheet and table of contents are not printed.

Ministers of Finance or Economy at which "concrete" solutions of Latin American economic problems would be achieved. This idea was generally supported, and the subsequent tactics by a number of delegations were to obtain the maximum possible at Caracas and still have a commitment for another meeting which would offer a further opportunity to press for additional and, it was hoped, more firm concessions by the U.S. The possibility existed, near the beginning of the Conference, of adopting a few perfunctory economic resolutions and postponing to the special economic meeting, action on the issues of major concern to most of the Latin American countries. This opening was not exploited, however, and in retrospect it was probably as well that the issues in dispute were debated and brought into clearer focus than ever before.

It may be anticipated that at Rio there will be additional pressure for specific and concrete commitments by the U.S., based on the premise—which is not new—that if there is unity in the Western Hemisphere militarily and politically, this should also extend to the economic field.

In its preparations for the Conference, the U.S. had anticipated all proposals of any importance which were eventually presented. What was not fully anticipated, however, was the extent to which some of the Latin American Delegations would go in pressing certain of their proposals to points which could not be accepted by the U.S.

At no previous Inter-American Conference did the Latin American Delegations come so well prepared with statements of economic problems and aspirations of their countries. Delegate after delegate presented lengthy and in many cases well-prepared documents; in fact, the beginning of subcommittee work was delayed for several days beyond the normal period of "general debate" in order to permit the delegates to conclude their presentations. In much of this was evident the work during the past three years of the secretariat of the United Nations Economic Commission for Latin America, under the direction of Raul Prebisch. The various Latin American countries had available from ECLA a very considerable number of studies of their economic problems on which they could draw for material, and in many cases the delegates had picked up technical economic jargon learned from Prebisch.

Latin American Positions

From their prepared statements, from the resolutions introduced and from the debates in Committee II and its subcommittees, it was clear that most of the Latin American Delegations had come to Caracas with the intention of getting the United States committed as far as possible at that meeting, to action in their favor on three main issues and several related or subsidiary issues. The three main issues were: more "favorable" terms of trade, through the guaranteeing in some unspecified way of high and stable prices for Latin American exports of raw materials to the United States; unilateral lowering of U.S. tariffs on Latin American products and no other form of trade restriction; and greater liberality in the granting of loans of public funds for economic development in Latin America, both as to amounts and methods of making the loans.

At the same time, it was recognized that on certain matters of importance to a few or many of the Latin American nations, the U.S. was not yet prepared to state a definitive position, e.g., disposal of agricultural surpluses. Combined with the drive at Caracas for resolutions at the Conference itself, which in some cases the United States could not support or had to vote against, therefore, there was the move—supported by the U.S.—for a special economic meeting in the last quarter of 1954 in Rio de Janeiro at which issues unresolved, or only partially resolved, at Caracas, could be further discussed. Support by the U.S., it should be noted, was partially related to our concern as to the outcome of the US-sponsored declaration against communism, which at the time of the discussion of the proposed special economic meeting, had not yet been voted upon in Committee I.

Several common themes ran through many of the Latin American statements and were reflected in the resolutions [2] introduced: higher and more stable prices for raw material exports; the need for assurances that prices for such exports would bear a favorable relationship to prices of imported manufactures; the need for unilateral action by the U.S. to lower duties on imports of Latin American products; the need for a more liberal policy in loans of public funds for economic development; the preference for the Export–Import Bank over the International Bank for Reconstruction and Development as a source for credits for development; strengthening and expansion, on a permanent basis, of the technical cooperation programs; improving and strengthening the operations of the Inter-American Economic and Social Council and coordinating its work more effectively with that of the United Nations Economic Commission for Latin America.

Individual country representatives, of course, had particular objectives: the Chileans wanted a special conference to pin down the U.S. on economic commitments; and compensation for alleged losses because their copper was not being sold behind the Iron Curtain. The Guatemalans wanted a resolution which under the misnomer of "agrarian reform" would serve them as a springboard for further land expropriation action against the United Fruit Company. The Bolivians also had a proposal on that subject. The Mexicans, Chileans and Bolivians wanted a special inter-American agency to concern itself with problems of tin, lead, zinc, copper and tungsten. The Dominicans wanted something which could be used as a basis for a larger quota in the U.S. sugar market. The Ecuadorans wanted a resolution which would give them the right to expand their claims to sovereignty over their non-existent Continental Shelf and the waters above it to a distance of 200 miles offshore. The Panamanians wanted a resolution in favor of abolishing the tax presently imposed by the U.S. on air, maritime and land passages in Central America and the Caribbean. The Argentines and Uruguayans particularly wanted assurances against disposal of U.S. agricultural surpluses in a manner harmful to their export markets. The Brazilians and Peruvians wanted prior inter-American economic resolutions to be codified, with the former desiring that the resulting document be considered at a special conference. The Peruvians wanted resolutions in favor of private enterprise (also the Panamanians) and the encouragement of private foreign investments. The Guatemalans wanted private foreign investments "regulated", and in general limited to less than 50 percent of the ownership of an enterprise. The Uruguayans (and the Dominicans in a less ambitious way) wanted a regional preferential trading system even within the GATT structure.[3]

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[2] Draft resolutions as submitted to the Tenth Inter-American Conference are printed in *Décima Conferencia Interamericana: Actos y documentos,* vols. II–IV; translations of a few resolutions originally submitted in Spanish, Portuguese, or French are contained in OAS files, lot 60 D 665.

Venezuela and Cuba and later Chile, tried to obtain acceptance of the thesis that income from private foreign investments should be taxed only in the country in which the income was created. Venezuela also wanted assurances that foreign capital would not displace existing national capital. Ecuador proposed a study of the possible creation of an Inter-American Institute of Technological Research, and Chile had a somewhat similar idea. Guatemala introduced resolutions against economic boycotts and monopolies, aimed at the United States or U.S. companies.

United States Position

The official U.S. position on economic matters at Caracas was set forth in one part of the Secretary's address on March 4 before a Plenary Session; in a statement by the Secretary before the Economic Committee on March 10; and in the main economic statement on the same day before that Committee by Assistant Secretary Waugh.[4]

Where applicable, the position outlined in those statements was of course maintained in the debates in the Economic Committee and its subcommittees.

The U.S. position was such that an area of complete agreement with the other countries could be found in such subjects as technical cooperation; the future work of the Inter-American Economic and Social Council and its relations with the United Nations Economic Commission for Latin America; and a measure of agreement on economic development, including private investments, public credits and economic diversification.

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[3] Reference is to the structure for international trade cooperation developed in pursuance of the General Agreement on Tariffs and Trade, concluded at Geneva, Oct. 30, 1947, and entered into force for the United States, Jan. 1, 1948; for text, see TIAS No. 1700 or 62 Stat. (pts. 5 and 6). For documentation relating to GATT, see volume I.

[4] For text of the referenced addresses by Secretary Dulles and Assistant Secretary Waugh, respectively, see *USDel Report*, pp. 43–51, 65–67, and 67–72, or Department of State *Bulletin*, Mar. 15, 1954, pp. 379–383; and *ibid.*, Mar. 22, 1954, pp. 426–429.

It was in that part of the agenda headed "commercial cooperation" that it was not possible to find an accommodation on two issues of importance. Thus, for the first time at an inter-American conference, the U.S. was forced to vote against a resolution bearing the title "Reduction of Barriers to Inter-American Trade".[5] The problem in the case of this resolution, however, was that it was entirely unilateral, calling upon the U.S. (not identified by name) to reduce or eliminate trade barriers against Latin American raw materials or semi-manufactures, without any reciprocal action by the Latin American countries.

In the same way, such a vigorous case was made by many of the Latin American countries for practically guaranteed assurances of favorable terms of trade, that the language adopted to express this in a resolution ("Terms of Trade and Prices"),[6] even though considerably watered down, could not be accepted by the U.S. because of its implications.

In the case of three economic resolutions, the U.S. Delegation found it necessary to abstain. One of these was on "Agricultural Surpluses",[7] and although the U.S. group was entirely sympathetic with the concern expressed particularly by Argentina and Uruguay—that U.S. agricultural surpluses might be disposed of in a manner harmful to normal marketings by those countries—and even though the delegations of those countries had attempted to frame their resolutions in a way which would prove acceptable to the U.S., it was decided that in view of the fluid nature of the problem at the present time and the fact that it was under study in both the Executive and Congress in Washington, it would be necessary to abstain.

In another resolution,[8] offered by Panama and proposing the removal of the tax imposed by the U.S. on tickets for travel to Central America and the Caribbean, it was recognized by the U.S. group that the tax did in fact discriminate against a particular area, but as the Delegation had no authority to vote in favor of the removal of the tax, and tax matters were at the moment under consideration in the Congress, it was again necessary to abstain.

On the subject of agrarian reform both Guatemala and Bolivia had introduced resolutions which, however, had not been discussed until the last meeting of Committee II. As the work of the Committee was about to be concluded, there was presented a Guatemalan-Bolivian combined draft which had not been seen by any of the other Delegations. Placed in discussion, it immediately produced numerous oral proposals for amendment, and the U.S. Delegation, by way of amendment, introduced an entirely new draft. After some three hours of debate, the Chairman finally asked the delegates to consider a proposal which attempted to combine the Guatemalan and U.S. drafts, with the elimination of a number of the more obnoxious phrases from the Guatemalan. This was eventually approved,[9] with not too many of the delegates exactly sure of the text on which they were voting. When a clean text became available, it was seen that the Guatemalan had been able to maintain his central idea of land distribution as the sole basis for agrarian reform. In the Plenary Session, dealing with economic resolutions, therefore, the U.S. Delegate announced his abstention and read a statement explaining that although the U.S. would support proposals for agrarian reform in its broad sense, it could not support a resolution based on the single and narrow concept of land distribution. Peru joined in this abstention, with all other votes cast in favor of the resolution.

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[5] For text of the referenced resolution, approved as Resolution LXVIII ("Reduction of Restrictions on Inter-American Trade"), see *USDel Report*, p. 135.

[6] Reference is to Resolution LXXVI; for text, see *ibid.*, p. 139.

[7] Reference is to Resolution LXXVII; for text, see *ibid.*, p. 140.

[8] Reference is to Resolution LXXXV; for text, see *ibid.*

Beyond the issues described above, the only other coming before the full Economic Committee which gave rise to any extended debate was that of conservation of natural resources: the continental shelf. This grew out of a resolution introduced by Ecuador, and was debated in the full Committee and a working group. There were wide differences between the Ecuadoran proposal and the position of the U.S.[10] and several other Delegations, with the result finally an agreement that the issues should be discussed at a special conference in 1955.

[Here follows discussion of the deliberations in the economic subcommittees.]

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[9] As Resolution LXXIV ("Agrarian Reform and Economic Development"); for text, see *USDel Report*, p. 137.

[10] The position of the United States on the subject of the continental shelf is extensively described in an undated position paper drafted for the Tenth Inter-American Conference, designated XIA D-8/1, not printed; a copy is contained in OAS files, lot 60 D 665.

Editorial Note

Of the 117 Resolutions, Declarations, and Agreements adopted by the Tenth Inter-American Conference, the United States voted against 4 items (XXIX, LXVIII, LXXVI, and XCVIII), and abstained on 12 (II, XII, XIII, XVII, XVIII, XXIII, XXX, LXXIII, LXXVII, LXXXV, XCVI, and XCVII). The United States did not sign either the

Convention on Diplomatic Asylum or the Convention on Territorial Asylum, signed by the other member delegations on March 28, 1954; it did, however, sign the Convention for the Promotion of Inter-American Cultural Relations on March 28, which entered into force for the United States, October 3, 1957; for text, see TIAS No. 3936 or 8 UST (pt. 2) 1903.

MEETING OF MINISTERS OF FINANCE OR ECONOMY OF THE AMERICAN REPUBLICS AS THE FOURTH EXTRAORDINARY MEETING OF THE INTER-AMERICAN ECONOMIC AND SOCIAL COUNCIL (RIO ECONOMIC CONFERENCE), HELD AT QUITANDINHA, BRAZIL, NOVEMBER 22–DECEMBER 2, 1954 [1]

Editorial Note

On April 9, 1954, President Eisenhower named a Sub-Cabinet Committee to review United States economic relations with Latin America and to formulate the basic policy framework for United States positions at the forthcoming Rio Economic Conference. Chaired by Assistant Secretary of State for Inter-American Affairs Holland, the committee was comprised of representatives at the Assistant Secretary level from the Departments of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury, and also from the Office of Defense Mobilization, the Foreign Operations Administration, and the Export–Import Bank. Between May 24 and November 16, 1954, the committee held 24 meetings; the policy statements adopted were subsequently referred to the Interdepartmental Committee on Latin American Economic Affairs (EA).

The Interdepartmental Committee was established in July 1954 under the chairmanship of Ambassador Merwin L. Bohan, United States Representative to the Inter-American Economic and Social Council. It consisted of representatives from the Departments of Agriculture, Commerce, Labor, State, and Treasury, and also from the Foreign Operations Administration and the Federal Reserve Board. On the basis of the policy statements approved by the Sub-Cabinet Committee, the Interdepartmental Committee prepared position papers on specific issues scheduled for deliberation, and others which the Department of State expected would arise, at the conference.

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[1] The meeting of Ministers of Finance or Economy is commonly referred to as the Rio Economic Conference. The headquarters for the meeting, however, was the Quitandinha Hotel, located approximately 40 miles from Rio de Janeiro and about 3 miles south of Petropolis.

For additional documentation and summary accounts of the meeting, see *Report of the United States Delegation to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, November 22 to December 2, 1954, Quitandinha, Brazil* (Washington, 1954), hereinafter cited as *USDel Report: Quitandinha*; and *Annals of the Organization of American States, 1954* (Washington, 1954), pp. 173–175, 257–289.

Documentation relating to the work of these two committees, including position papers and minutes of meetings, is contained in OAS files, lot 60 D 665.

Editorial Note

During 1954, officers of the Department of State delivered the following addresses concerning United States economic relations with Latin America and the Rio Economic Conference:

On April 29, Mr. Holland delivered an address to the Mississippi Valley World Trade Conference at New Orleans; for text, see Department of State *Bulletin,* May 17, 1954, pages 764–770.

On July 9, Mr. Cale delivered an address to the Fifth Indiana University Conference on Problems of American Foreign Policy at Bloomington, Indiana; for text, see *ibid.,* July 19, 1954, pages 79–83.

On September 21, Ambassador Bohan delivered an address to the combined service clubs at Madison, Wisconsin; for text, see *ibid.,* October 11, 1954, pages 535–538.

On October 27, Mr. Holland delivered an address to the Pan American Society of New York; for text, see *ibid.,* November 8, 1954, pages 684–690.

OAS files, lot 60 D 665, "Rio Economic Conference—general"

Memorandum by the Acting Deputy Director of the Office of Economic Defense and Trade Policy (Frank) to the Assistant Secretary of State for Economic Affairs (Waugh) [1]

SECRET [WASHINGTON,] June 14, 1954.

Subject: Comments on FOA Report [2] for Rio Conference

General Comments

1. The heart of the FOA Report is the section on the programming and financing of development and technical cooperation (pages 7–27). Most of the specific recommendations fall within this field and are commented on below under "Economic Development."

2. The Report also includes some general recommendations on our economic relations with Latin America and a section on trade and commodity problems. These sections are weak and contribute little to our preparations for Rio, probably because FOA does not in these fields

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[1] Drafted by Isaiah Frank and Joseph Rosa of the Economic Development Staff.

[2] Reference is to a report titled "Program Recommended by FOA Staff for Adoption at the Rio Conference," prepared at the staff level in the Foreign Operations Administration and dated June 8, 1954; a copy is in MSA-FOA Director's files, FRC 55 A 374, "Rio Economic Conference".

have the familiarity that comes with operating responsibility. We will have to look to other papers to serve as a basis for Committee discussions of such subjects as stockpiling, terms of trade, commodity agreements, agricultural surpluses, etc.

3. I believe you should say some words of praise for the enthusiasm with which FOA has approached the problem of preparing a program for Rio in the economic development field. While a number of the proposals in the paper are open to serious question, FOA has obviously given good deal of thought to the problem.

4. FOA talks about "an urgent need for dramatic new lines of action". I would question whether dramatic new approaches are necessary or desirable. The dramatic quality can seldom be sustained over a period of time, and frustration often sets in when the initial enthusiasm wears away. What we need are programs which are solid, steady and constructive over the long-term.

5. Although our programs should be developed for the long pull, I would question whether we should decide now that "the main punch should be an *announcement* that the United States intends to get behind Latin American economic development for the 'long haul' ". Regardless of how we qualify such an announcement, it will be construed in Latin America as a financial commitment. If we are willing to make a long-term financial commitment, such an announcement would have a salutary effect, but this cannot be determined until we have discussed the substance of our policy and know what we have with which to back the announcement up.

6. The last 15 pages of the FOA Report consist of an Appendix containing recommendations on individual resolutions adopted at Caracas.[3] This is not a particularly useful exercise. Those few Caracas resolutions which call for specific action on our part are already being followed up. The balance of the Caracas resolutions are expressions of general policy. They are not likely to come up in precisely the same form at Rio. What we will need are general position papers on the subjects which came up at Caracas and are likely to come up at Rio, rather than positions on specific resolutions that have already been adopted. The purpose of the meetings of the Sub-Cabinet Committee is precisely to develop such general positions.

Economic Development

Ten of the eleven main lines of action proposed in the FOA paper deal with problems of economic development. These ten proposals are listed and commented on below under the three headings, Programming, Financing and Technical Cooperation.

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[3] Reference is to the Tenth Inter-American Conference, held at Caracas, Mar. 1-28, 1954. For text of the resolutions adopted by the conference, see *Tenth Inter-American Conference: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 81-175. For documentation concerning the conference, see pp. 264 ff.

I. *Programming*

1. *Urge Latin American governments to devote greater attention to development planning.*

Comment:

This proposal was in effect made at the Caracas conference which adopted a resolution recommending that the Latin American countries consider the establishment of development planning.

2. *Urge that the Latin American governments and the United States make joint effort in finding ways to increase Latin American production at a rate faster than population growth.*

Comment:

Increasing production in Latin America is a generally desirable objective. The objective of this proposal, however, has already been attained, and indeed exceeded considerably. For the past decade or so output has increased faster than population, a fact reflected in the 3 per cent annual increase in per capita production in Latin America, which is somewhat higher than the long time United States average.

3. *Urge Latin American governments to seek a more equitable distribution of income.*

Comment:

A positive statement on more equitable distribution of income would probably be desirable at Rio. FOA, however, has in mind increasing emphasis on production of consumer goods, housing, minimum wage legislation, etc. There is a serious question as to whether we could appropriately push the Latin American governments to take such specific measures while urging them to mobilize more of their capital resources for economic development. Instead of specifying the measures they should take toward this objective, we should limit ourselves to a general statement somewhat along the following lines: In order to increase the standard of living of the population, it is essential that the benefits of increased production be shared equitably.

4. *(a) Latin American countries should be fully responsible for their own development planning; recommended that they set up planning agencies as resolved at Caracas (Resolution No. 72).*

Comment:

Agree that the countries themselves should be responsible for their development planning. As there is already a resolution (Caracas) recommending the setting up of planning agencies, no further action along these lines seems to be called for.

(b) Recommend establishment of Joint Development Commissions to coordinate United States financing and United States technical cooperation with Latin American development goals.

Comment:

In the minds of Latin American governments and peoples, plans prepared by a joint body including official United States participation imply a United States commitment to provide for the necessary financing of such plans. We have had experience with two Joint Commissions in Latin America, in Brazil and Paraguay. Our activities in Paraguay have not been of sufficient scope to make effective use of such an organization, and after a period of rather innocuous performance, several months ago it was terminated. In Brazil we made an aggressive effort to carry on joint planning, but after about two years we felt it advisable to terminate it [4] following some strained moments in our relations with that country as a result of her disappointment in not getting the necessary financing for the plans formulated by this Commission. We should not, however, exclude the possibly that with improvement in this device, and under more favorable conditions, it could become a useful tool for guiding and stimulating economic development in some countries.

(c) Assign full-time FOA industrial or economic advisers to appraise each country's potential for development.

Comment:

It seems to us that this is a matter to be resolved by the United States and the countries individually, depending on the nature of the program we carry on in a particular country. It is doubtful that any useful purpose would be served by a United States pronouncement on this matter at Rio.

5. *Recommend setting up a mechanism for regional review of country plans.*

Comment:

This proposal envisages the possible application of the Colombo Plan [5] to Latin America, assigning the review and coordinating functions involved, however, to IA-ECOSOC rather than to an *ad hoc* group. (In the Colombo Plan, review and coordination, if any, are performed at the annual meeting of the Consultative Committee, which has no permanent secretariat. It is essentially an occasion for the representatives of the member countries to exchange ideas regarding their development programs.) While on its face, regional review of country programs might seem useful, it would require a stronger case than there is in the FOA paper to merit its inclusion in our program for Rio.

II. *Financing.*

6. *(a) Emphasize that private investment, whether domestic or foreign, must be the main source of development capital in Latin America and that Latin America take appropriate measures to encourage this investment.*

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[4] For documentation relating to the termination of the Joint Brazil-United States Economic Development Commission, see pp. 609 ff.

[5] Reference is to the Colombo Plan for Economic Development in South and Southeast Asia, which comprised a number of related long-term national development plans officially initiated in 1951 by the nations of the British Commonwealth; for documentation concerning U.S. interest in the plan, see volume XII.

(b) Recommended establishment of bilateral and multilateral banks to help finance domestic investment in Latin America, or

Alternatively that FOA foster the establishment of national development financing agencies. These should be domestically capitalized, but supplemented by IBRD, Export–Import Bank loans, private investment, grants and local currency counter-part funds.

Comments:

(*a*) We are in wholehearted accord with the substance of this proposal. It should be implicit in our discussions with the Latin American countries that we look primarily to American private investment to assist them in pursuing their economic development goals. It would appear advisable, however, to soft-pedal our public statements in this regard, as we have made the point time and time again and it leaves the impression that the United States must invest abroad for its own benefit.

(*b*) We also agree with the objective of this proposal. We should encourage devices to stimulate local savings and channel such savings into more productive kinds of investment. At the time we cannot help having some doubt about the advisability of our entering into the ownership and administration of bilateral development banks. Our participation in such activities might have unfortunate public relations repercussions. Our experience with such institutions in Bolivia, Ecuador and Haiti during the last war and the immediate post-war years should make us wary of such ventures.

We also have doubts about the advisability of our participating in a multilateral bank for Latin America. It may be assumed that all of the Latin American countries would wish to employ at home such resources as they have available for economic development. There is no indication that an Inter-American Bank would be able to attract the necessary capital from private sources in the United States, and in the absence of private United States capital the financing of this institution would fall almost entirely on the United States Government.

Our efforts might better be directed toward the other suggested alternative of encouraging national development banks organized primarily with domestic capital to be supplemented, where desirable, by IBRD, Export–Import Bank and other loans. There are institutions of this nature in Latin America, and in many cases the need is primarily to improve existing institutions. United States participation in the management of such banks, to the extent necessary, could be achieved, as IBRD has done, through a technical advisor or his equivalent.

7. *Encourage United States private foreign investment by improved investment climate, more favorable United States tax laws and greater use of investment guaranties.*

Comment:

The FOA paper proposes calling the Latin American governments' attention to Contact Clearing House Service in FOA's Office of Small Business. This seems to be a desirable adjunct to encouraging private investment abroad, but its importance seems to be over-emphasized. It would be helpful if we could have an appraisal of the effectiveness of this Service to date. In this connection, recognition should be given to the older, more far-reaching (and probably, more effective) services of the Department of Commerce.

Tax Laws. We have always rejected, as the paper rightly recommends, the contention that the United States has no right to tax income earned abroad by its citizens and corporations.

Since the Administration's tax proposals are now in the legislative mill, the Committee's consideration of tax measures would seem to be more appropriate at a future date. It would be more appropriate to discuss the subject of taxes on the basis of a Treasury paper.

Investment Guaranty. The extension of the FOA Investment Guaranty Program[6] to Latin America has been unsuccessful for several reasons, among which are:

(*a*) The feeling among Latin American countries that guaranties have little incentive effect and

(*b*) the reaction that the proposed guaranty agreements, particularly as regards expropriation, are a reflection both on the country's good faith and its sovereignty. There is some feeling that if the guaranty program were limited in Latin America to the transfer risk, it might be more palatable.

Export Credit Facilities. There is some feeling that additional export credit facilities are needed (1) to equalize the position of United States exporters in Latin American markets with that of foreign exporters who are able to offer better credit terms and (2) to enable Latin American importers to purchase goods on the basis of price rather than credit terms. A study of the possibilities of an export credit guaranty would be desirable.

8. *Public Lending. Expand IBRD and Eximbank development loans, announce the general magnitude of such possible expansion, and coordinate these loans with the objectives of country plans through Bank representation on proposed joint Commissions.*

Comment:

The IBRD should certainly be encouraged to increase activity in Latin America, but the most useful effort toward this end would be for the Latin American countries to prepare sound development projects and submit them to that Bank. With regard to expansion by the Export-Import Bank, the new Administration proposal is a move in that direction. In regard to the recommendation on announcing the general magnitude of possible loan expansion, it may be recalled that some months ago in preparing for Caracas the Department was in favor of some general 5-year target along these lines, and that due to Treasury's objection, the idea was dropped. Any application of this proposal would, of course, be feasible only in terms of regional and not country magnitude.

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[6] Under the investment guaranty program, initiated in 1948, the U.S. Government provided, for a fee, insurance protection for American investors abroad against the risks of loss through confiscation or expropriation and currency inconvertibility. For documentation concerning the initiation of the program, see *Foreign Relations*, 1949, vol. I, pp. 631 ff. For additional information, see *Staff Papers Presented to the Commission on Foreign Economic Policy* (Washington, 1954), pp. 126–134.

9. *Increase United States grant and soft loan assistance.*

Comment:

We should be prepared to meet unusual situations, such as exist in Bolivia, where temporarily grant financing may be appropriate. No case has, however, been made for a general use of economic aid either in the form of soft loans or grants.

III. *Technical Cooperation.*

10. *Expand technical cooperation programs, and reorientate these programs to focus more directly on economic development objectives.*

Comment:

The proposal is that instead of concentrating on agriculture, health and education, as FOA and its predecessors have done in Latin America, the future emphasis should be on activities more directly contributing to economic development such as industrial technology and public administration. We assume that the new program would still include agriculture.

Actually, FOA has provided some technical assistance in industry and public administration in Latin America on a modest scale. The stepping up of activity in these fields would, it seems to us, be a valuable contribution to development effort in Latin America. Serious consideration should, however, be given to the question as to whether we should really capitalize on this proposal in Rio without having some assurance beforehand that the United States will actually be in a position to make good on this offer to Latin America. Under existing agreements we have undertaken to staff a number of projects for which we have been unable to provide the necessary technicians.

Some caution will be required in our activities in the public administration field. This is a sensitive area, and many countries prefer to receive such assistance through the UN—even though the technicians employed may be United States nationals.

MSA-FOA Director's files, FRC 56 A 632, "Rio Economic Conference"

Minutes of a Meeting Held in the Executive Office Building, 11 a.m., June 21, 1954

CONFIDENTIAL
MISC/RA-47
Present:

Mr. Stassen
Dr. FitzGerald
Mr. Hardesty
Mr. Floyd[1]
Mr. Bauer
Mr. Cady
Mr. Doggett
Mr. Trisko
Mr. Buck
Mr. Schuweiler
Mr. Holmgreen
Mr. Roseman
Mr. Carusi
Mr. Frost
Mr. Wiggins

Purpose of the Meeting

Mr. Stassen called this special meeting of FOA personnel to discuss the guidelines needed for the Rio Conference and some of the issues that will probably be raised there. He explained that one of the reasons for analyzing the situation at this meeting was to consider whether it is appropriate to have the policy guidelines developed at a lower level, with all the preconceived limitations that exist, or whether it is necessary to have some early, Cabinet-level attention given to the need for broad guidelines on our Latin American policy.

Conclusions

(1) We need early reference to the Cabinet level, to get some very important guidelines for the Rio Conference established.

(2) FOA representatives should not consent, in working groups or in the Sub-Cabinet Committee, to any inadequate recommendations or measures; if necessary, FOA representatives should reserve their position so that there may be an appeal later.

(3) FOA believes that the U.S. economic policy toward Latin America is inadequate and that from that inadequacy are coming and will continue to come very serious political and security problems; therefore it is very important that the U.S. develop a new, adequate policy.

(4) Some regional economic approaches in this hemisphere are past due; and we will not get a correct psychological attitude in Latin

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[1] FOA personnel listed below are identified as follows: John Floyd, Chief of the Latin American Program Staff; Walter Bauer; John C. Cady; Clinton L. Doggett; Ralph L. Trisko, Deputy Director of the Office of Industrial Resources; Ellsworth B. Buck; Melvin L. Schuweiler, E. N. Holmgreen, Director of the Office of Food and Agriculture; Alvin Roseman, Director of the Office of Public Services; Ugo Carusi, Deputy Assistant Director of the Office for Refugees, Migration and Voluntary Assistance; Dayton H. Frost, Chief of the Intergovernmental Refugee Programs Division; and Warren W. Wiggins, Program and Planning Division for Europe.

America unless there is evolved a method for multilateral work on economic problems and financial considerations.

Discussion

Mr. Hardesty said that the first five meetings of the Sub-Cabinet Committee were devoted almost exclusively to a general discussion of the broad philosophy of what could be done at the conference and the position the U.S. should take. The Committee is now considering the FOA staff report which is considered the basic document from which a position will be developed.

Mr. Stassen asked Mr. Hardesty what three things the Latin American governments want from the conference. Mr. Hardesty said the first is psychological—they want the U.S. to give them treatment in development financing that is equal to that given to other areas of the world; second, the formation of a Pan American Bank, and third a floor under prices paid for their commodities.

Mr. Hardesty expressed concern that it appears to be the viewpoint of many members of the Sub-Cabinet Committee that we should be ready with a defense at Rio, anticipating how we can throw back the Latin American requests, rather than to have a positive approach as to what we have to offer. Mr. Buck said that rather than being on the defensive at the conference we should take the offensive by pointing out to the Latin American countries the steps which they should or must take to improve their economies and stating that after those steps are taken we are prepared to cooperate with them in certain stated ways.

1. *Financing Economic Development*

Dr. FitzGerald said that the central question is whether and to what extent the U.S. will commit itself to arrangements which look toward larger developmental resources for Latin America. Unless there are compelling reasons for establishing U.S. institutions in addition to IBRD and the EXIM Bank, our effort should be concentrated on developing, prior to the Rio Conference, a more liberal policy toward EXIM loans to Latin America. There will be procedural difficulties in preparing a statement that the U.S. will assist in further economic development in Latin America in return for the Latin American countries' taking a number of steps which will be difficult politically and for which in many instances they do not have the necessary administrative competence. Basically the question that must be decided before the Rio Conference is whether the U.S. is going to make any additional loans, primarily loans for developmental assistance, and under what conditions.

Mr. Buck said there has been considerable pressure for a more liberal EXIM Bank policy with respect to loans, particularly export loans, but he felt it would be very difficult to get the Bank to state a maximum amount that they would be willing to put into Latin America without knowing in advance the conditions of the loans. He said he thought there were great possibilities in S/TIM's proposal that the EXIM Bank utilize the South American branch offices of U.S. banks to make development loans and that this proposal should be put forward at the Rio Conference. (*Note:* This proposal is mentioned briefly on page 14 of the FOA Staff Report [2] and is expected to be discussed this week [3] with the Export-Import Bank.)

Mr. Stassen said there are some who feel that governmental loans or credits are a substitute for and a block to private investment for developmental undertakings and that he did not believe this was necessarily so.

Action: He asked Mr. Doggett to have RS&R prepare a list [4] showing the Latin American countries which have received EXIM Bank or IBRD credits over a period of years and which countries have received private foreign investment, indicating the volume of each type of financing; and to analyze these data to see if there is any indication whether governmental credit for development facilities expanded or contracted private investment.

2. *The Regional Approach*

Mr. Stassen said he believed the Latin American countries want to move in a regional direction and to have more regional relationships of an economic nature and that our government has had a firm position against such a move. He added that he felt we have been and are in grave danger of continuing to be totally inadequate in our approach to Latin American economic problems and that a new approach could only be achieved at the Cabinet level, with the President.

We will not get the psychological attitude we want to have in Latin America unless there comes out of the Rio Conference some sort of regional arrangement that has developed as a result of Latin American desires and U.S. interest in them. Our discouraging such a development would create an unfavorable attitude because they know of the successful regional development in Europe on an economic basis.

Mr. Roseman pointed out that the creation of regional institutions presents related problems such as the availability of private and public capital for investment and the possibility of developing a mutual self-encouraging and self-policing review of economic development planning.

Mr. Russell [5] said that if there exists any master analysis of what is needed to reorganize and advance the economies of Latin America it should be possible to pick out long-term as well as shorter-term objectives; and if there were some pieces of a long-term program that could be rather easily effected we might concentrate on them.

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[2] Regarding the staff report, see footnote 2, p. 314.

[3] No record of this discussion was found in Department of State files.

[4] Not found in Department of State files; for information concerning the total amount of loans to Latin American countries by the Export-Import Bank and the International Bank for Reconstruction and Development, see the minutes of the 214th meeting of the National Advisory Council, Sept. 22, 1954, p. 250.

[5] Presumably William F. Russell, Acting Deputy Director for Technical Services.

Mr. Hardesty said that the Sub-Cabinet Committee group has brought out the point that our dealings with Latin American countries should be on a bilateral basis. Mr. Stassen said that probably one of their objections to the development of a regional or continental approach is the view that such an arrangement would impose a handicap on the facilitation of worldwide trade and payments; but the strength we built in Europe has facilitated a broader worldwide flow of goods rather than handicapped it.

Mr. Stassen then raised the question of the United States indicating a social conscience in relationship to the people of Latin America by supporting a progressive approach to an advance in the standard of living of the people as a whole, supporting such things as minimum wages and opposing current semi-slave labor conditions. If we do not help an evolution of this type, the impetus of social justice will be seized by the Communists and used to promote their system.

3. *Position on Materials and Commodities*

Mr. Stassen said another problem to consider is U.S. policy on raw materials and commodities.[6] The discussion in the Sub-Cabinet Committee appears to have been far more limited than Dr. Eisenhower's position. There is a question of basic policy involved as to whether we should have more than a stockpile approach, whether we should bring into it such elements as other countries' foreign exchange requirements, their need for some stability in their prices, and the world balance of payments situation. We must go into the Rio Conference with more than a statement of sympathetic consideration because in the past they have not had sympathetic consideration. Of course this problem goes beyond the matter of Latin American policy; it is a matter of U.S. raw materials policy.

Mr. Trisko said we have been limited in what we could say on this subject by the general U.S. policy with regard to commodity stabilization measures, which is a conservative approach. In ECOSOC we are preparing again to take a negative stand on this subject. Mr. Stassen said the Administration may want to review its commodity policy again, in the light of the Latin American problem, and that we should not feel completely tied by the pre-existing commodity policy.

Mr. Stassen suggested the possibility of developing consultative bodies on basic raw materials. The groups would consist of representatives of major producers and major consumers who, without commodity agreements to limit production or agreements to purchase, would try to narrow the chart fluctuations. He had in mind that these bodies would be under government auspices and would consist of private individuals representing producers and consumers, with government representatives participating. Mr. Hardesty pointed out that Latin America is interested basically in a hemispheric approach rather than a world-wide approach. Mr. Stassen said there could not be a hemispheric approach on such basic materials as tin or copper. Mr. Trisko said that we should try to deflect the Latin American countries from concentrating on this particular aspect of their problem as a solution to all problems.

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[6] For documentation on this subject, see volume I.

4. *NSC–144/1* [7]

General Porter [8] said that Mr. Holland (State) has indicated that he was not certain the NSC document on Latin America needs to be revised at this time; but General Porter has been putting forward the FOA view that it should be revised. Mr. Stassen asked if any of the attendees felt that the U.S. now has an adequate economic policy in relationship to Latin America. None did. General Porter said that this subject might well be raised in the NSC meeting on June 24,[9] when there will be a discussion on stockpile materials and their influence on commodity prices, and on regional economic arrangements.

The meeting adjourned at 12:25 p.m.

MARY JOAN FOX [10]
Executive Secretariat

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[7] Dated Mar. 18, 1953, and approved by President Eisenhower on the same date; for text, see p. 6.

[8] Brig. Gen. Robert W. Porter, Jr., Military Adviser, Foreign Operations Administration.

[9] Reference is to the 204th meeting of the National Security Council; a memorandum of discussion at the meeting, dated June 24, 1954, is in Eisenhower Library, Eisenhower papers, Whitman file, NSC records.

[10] Chief of the Committee Staff.

MSA-FOA Director's files, FRC 56 A 632, "Rio Economic Conference"

Memorandum by the Acting Regional Director of the Office of Latin American Operations (Hardesty) to the Director of the Foreign Operations Administration (Stassen)

CONFIDENTIAL [WASHINGTON,] July 19, 1954.

Subject: The Sub-Cabinet Committee for the Rio Economic Conference

1. The following information pertaining to the Sub-Cabinet Committee for the Rio Economic Conference may be of interest to you as background for your luncheon tomorrow with Mr. Holland.

2. After 10 meetings of the Sub-Cabinet Committee, I have reluctantly come to the conclusion that the results of its work will prove inad-

equate. Only a few additional meetings are scheduled and I believe that when the final policy decisions are related to the needs of the situation, the Committee's work will remain almost fruitless unless it is given the benefit of higher level directives.

3. Only two policy statements [1] have been finalized: the first recognizes the need on the part of most Latin American countries to improve their economic development planning and programming, and affirms the role of technical cooperation in such planning and programming, subject to numerous qualifying and inhibiting conditions; the second recognizes that "development banks" may serve useful functions, but again, the qualifications would make effective implementation difficult.

4. I have been pressing for two over-all policy objectives which have found practically no recognition by the Committee:

a. U.S. national interest requires a *faster rate* of economic development throughout Latin America. Accordingly, there is the need to give new direction and amplification to technical assistance programs, on a planned country basis, toward the achievement of improved living standards by means of greatly accelerated economic development.

b. It should be an objective of the United States to undertake to strengthen the present system of economic development financing by providing the missing component in essential capital needs through expansion of IBRD and Eximbank lending as a necessary stimulant or supplement to private investment. Also, consideration should be given to FOA development assistance advances.

5. So far, there has been little disposition to relate the recommendations of Dr. Milton Eisenhower [2] (the basis of FOA's position) to the formulation of our economic policy toward Latin America. Both Commerce and Treasury representatives on the Committee accompanied Dr. Eisenhower on his trip. However, his recommendations, I understand, represented his own conclusions rather than those of his party.

6. With respect to financing economic development, FOA and State support a level of public loans up to $1 billion over the next few years for essential projects which do not attract private capital, the idea being that IBRD would be the first bank or recourse for such lending but that Eximbank and FOA would make up the difference for sound projects to the extent to which IBRD did not lend. The proposal is most vigorously opposed by Commerce and Treasury representatives on these grounds:

a. Any mention of a figure is tantamount to a commitment.

b. It is impossible to forecast the creditworthiness of Latin America.

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[1] Neither printed.

[2] Reference is to the set of recommendations contained in Dr. Eisenhower's report submitted to President Eisenhower under date of Nov. 18, 1953, which resulted from the factfinding tour to South America that he conducted for the President between June 23 and July 29, 1953. Regarding Dr. Eisenhower's trip and his report, see the editorial note, p. 196, and Mr. Bennett's memorandum, Aug. 20, 1954, p. 229.

c. Latin America knows that there is an unlimited source of financing in the United States, including IBRD and Eximbank; the inference is that the banks will look at such projects as are brought forward and relate them to the extent to which Latin American countries put their financial houses in order to enhance creditworthiness.

7. I feel a directive is needed which will say, not "how *little* can we do to appease Latin American desires for economic cooperation with the United States?", but "how *much* must we do to insure the security of the United States?", as both the time and opportunity to do this are running out.

8. There is a clear indication that the technical agencies participating in the Technical Cooperation Program are working toward independence from FOA in their operations. This cumulative self-interest could eventually eliminate FOA.

MSA-FOA Director's files, FRC 56 A 632, "Rio Economic Conference"

Memorandum by John C. Cady of the Office of Latin American Operations to the Director of the Foreign Operations Administration (*Stassen*)

CONFIDENTIAL [WASHINGTON,] August 27, 1954.

Subject: Policies Developed by the Sub-Cabinet Committee on the Rio Economic Conference

At its nineteenth meeting on August 20, the subject Committee adjourned until sometime in October, when it will consider the individual position papers on Rio agenda items which are to be prepared by the Interdepartmental Committee on Latin American Economic Affairs (EA), pursuant to the policies developed by the Committee. The EA Committee, which includes FOA representation, will have its first meeting today—August 27.

The policies developed by the Sub-Cabinet Committee may be summarized as follows:

A. *Programming of Economic Development and Role of Technical Cooperation*

1. Favors the establishment of national agencies, where lacking, to prepare economic development programs, fix priorities and coordinate public and private investment. Endorses technical assistance in this type of activity (including the very limited use of joint commissions).

2. Adopted the position that United States should take the initiative at Rio in proposing that discussion of development programming and related problems of member countries be placed on the agenda for the 1955 annual meeting of IA-ECOSOC. The hope is that a realistic exchange of views on common problems will result in more effective development planning and programming.

3. Accepted the principle that technical cooperation has reached a stage of development in Latin America which requires broadening and more long-range planning. Endorsed the concept that it is the United States' intention to proceed, subject to the interest and participation of the other country and availability of personnel and funds, with actual planning of activities for that period of years appropriate to the particular program from the viewpoint of the contribution it can make to balanced economic development.

B. *Financing of Economic Development*

1. Adopted the position that the economic development of Latin American countries will be best served by adherence to the principles of the private enterprise system; that the United States should exert constant but discreet practical pressure in favor of private initiative. Measures toward that end would include expanded use of Eximbank to assist private enterprise; technical assistance, preferably through private channels, and encouragement to private United States firms and business associations (also IBRD) to develop more productive programs for promoting private enterprise.

2. Proposes the announcement that (*a*) the United States is prepared to conclude as promptly as possible appropriate agreements for the avoidance of international double taxation and the prevention of fiscal evasion, urging the Latin American States to be more receptive to the United States' proposal to negotiate such agreements, and (*b*) the United States will continue to explore measures that will progressively reduce and eliminate international double taxation and avoid discriminatory or unduly burdensome taxation and thereby encourage the flow of private capital to countries which by their own tax regimes and other policies are attractive to United States capital.

3. Endorses the position that IBRD is the primary source of development financing for projects not attractive to private capital. Proposes the annoucement at Rio that Eximbank, within its prudent lending capacity, will supplement IBRD lending to the extent necessary to satisfy all applications for the financing of sound development projects which are in our common interest and which are not being financed by IBRD. This lending will depend to a very considerable extent upon the degree to which the other country desires to obtain private and public capital and takes "house-in-order" actions to attract it. (The Committee, with FOA reserving its position, considered that the foregoing, plus the flow of private capital, would satisfy all development financing needs, and it did not therefore accept the proposal of utilizing FOA development advances as loans or grants, nor did it accept the concept of United States loan assistance to create a Latin American Development Bank to finance small industries and a Latin American Clearing House to facilitate convertibility.)

4. Recognizes, subject to limiting qualifications, that a useful function can be performed in some cases by "national development banks" in mobilizing domestic capital and promoting economic development, and that in such cases United States assistance may be appropriate through loans and other means as circumstances may warrant in each case.

C. *International Trade and Price Stabilization*

1. Considers that special measures are not needed to maintain an equitable relationship between the prices of primary products and those of manufactures, nor that an international price parity system is a practical possibility. Normal market prices can be relied upon to achieve fair and equitable price relationships.

2. Places more reliance upon normal corrective forces through the market price mechanism than on special measures such as buffer stocks and commodity agreements which would be made use of only in exceptional cases, the burden of the proof of feasibility and effectiveness to rest with the proponents of the measure.

3. Adopted the position that the long-term stockpiling policy should not be presented at Rio as a significant solution to the price stabilization problem and that the delegation should confine itself to the statement that a stockpiling program is being developed which is likely to have some tendency in the direction of greater stability of world prices.

4. Supports GATT,[1] hopes that countries which are not members will join, and endorses the aims to change the organizational provisions and trade rules of the GATT to make it a simpler and stronger instrument for international cooperation and the expansion of international trade.

5. Considers participation in COCOM [2] and CG by Latin American Governments as unwarranted since the problems of concern to participants are those of highly industrialized economies heavily engaged in exporting advanced technological items. (In accordance with Caracas Resolution LXXV [3] recommending ample exchange of views on restrictions on trade in strategic raw materials, discussions are under way with certain of the Latin American governments regarding controls over exports to the Soviet Bloc.)

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[1] Reference is to the General Agreement on Tariffs and Trade, concluded at Geneva, Oct. 30, 1947, and entered into force for the United States, Jan. 1, 1948; for text, see Department of State Treaties and Other International Acts Series (TIAS) No. 1700, or 61 Stat. (pts. 5 and 6). For documentation relating to the negotiation of the agreement, see *Foreign Relations*, 1947, vol. I, pp. 909 ff.

[2] Reference is to the Coordinating Committee of the Paris Consultative Group, an informal international organization established in 1950 by a group of non-Communist nations for the purpose of controlling the export of strategic goods to Communist countries; the senior body within the committee was known as the Consultative Group (CG). For documentation concerning the formation of COCOM, see *ibid.*, 1950, vol. IV, pp. 65 ff.

[3] For text, see *Tenth Inter-American Conference: Report of the Delegation of the United States*, p. 139.

6. Proposes the announcement at Rio that it is the policy of the present Administration to pursue stable long-term trading policies, including the gradual selective reduction of United States tariffs and other barriers to trade.

S/P-NSC files, lot 61 D 167

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Smith) [1]

CONFIDENTIAL [WASHINGTON,] September 1, 1954.

Subject: "Talking Paper" for NSC Meeting [2]

For several years in policy papers, in meetings and in public announcements the United States has been talking about how important its relations with Latin America are and about how we are going to start doing something to demonstrate our interest in the area.

It is my impression that when we get around to economics our performance has been largely verbal. I ask myself when we are going to start doing something about our relations in these countries and how long we are going to expect them to be satisfied with fine phrases.

The very narrow escape that we had in the Guatemala crisis has centered public and congressional attention on Latin America. The public and the Congress feel strongly that this Government has got to do whatever is necessary to bring these countries closer to us. In the economic field those policies are going to be weighed and measured at the forthcoming conference beginning in Rio de Janeiro on November 22.

I believe that we can go to Rio with policies that will make that meeting a success.

The subject that interests the Latins more than any other one is the question of trade barriers.

The people of Latin America are obsessed with a determination to strengthen their economies and improve living standards. The insistence of the governments on stronger economies is simply a reflection of this very strong feeling among the people.

The government leaders fully understand the obvious fact that Latin America cannot achieve much economic progress unless she trades with the United States. Therefore, the No. 1 problem at Rio is going to be the question of trade barriers. If we convince the Latins that the policy of this Administration will be to avoid tariff increases, quotas, and other trade barriers which would reduce existing levels of inter-

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[1] Drafted by Mr. Holland.

[2] Apparent reference to the 212th meeting of the NSC, held Sept. 2, 1954, attended by Acting Secretary Smith; for an extract from the memorandum of discussion at the meeting, see p. 67.

American trade and that our policy would be one of gradual, selective reduction of trade barriers, they will be fully satisfied on this score. That happens to be the policy the President set out in his message to Congress on foreign economic policy of March 30.[3]

The next most important subject will be that of government finance. If we convince the Latins that there will actually be a more liberal policy on the part of the Export-Import Bank; that we are going to make loans available under the conditions outlined in the Planning Board recommendation, we believe that the Latin Americans will be satisfied on this point. In other words, if they are assured of a liberal Export-Import Bank policy I do not feel that grant aid or so-called "soft loans"[4] are going to be necessary. To be effective this policy is going to have to be stated very positively. I think within the limits of the Planning Board paper which are pretty strict and include that of the lending capacity of the Bank we should say that we are prepared to meet the entire demand.

The important thing about our policies on these two points, trade and government credit, is going to be the subjective intent of the men who are implementing those policies. I think we should determine here and now whether we do in fact intend to try to prevent any increase in trade barriers which will reduce existing volumes of trade, and whether it is in fact the intention of this Government that the Export-Import Bank will pursue a substantially more liberal policy. If so, then I believe that these policies can be so stated to the Latin Americans as to satisfy them at Rio.

Another point that will be important at Rio is whether the United States Government is going to engage in any sort of a price stabilization program to assure minimum prices for the principal products of Latin America. I believe that the Latin Americans understand that we cannot undertake such a program, and that our failure to do so will not jeopardize the success of the Rio Conference.

The Latin Americans are going to be interested in our continuing our programs of technical aid, and I believe that our policies on this are sound.

A concrete example of the sufficiency of these policies to make a success of the Rio meeting is the case of Mexico. Until early this year our relations with Mexico were decidedly unsatisfactory. Today they are better than they have been in several years. There are four reasons for this. First, the Mexican Government was startled at the strong unfavorable reaction of its own people regarding Mexico's stand on the anti-Communist resolution at Caracas. Second, the Government was startled at the very strong adverse public reaction to its devaluation of the peso. Third, the granting of an International Bank loan to rehabilitate the Southern Pacific Railroad of Mexico is interpreted as evidencing a favorable lending policy on behalf of this Government even if it was the International Bank. Fourth, the President's decision to refuse to raise the tariffs on lead and zinc [5] has been accepted in Mexico as proof that the President's stated policy on expanding foreign trade will in fact be followed in this hemisphere.

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[3] For text of President Eisenhower's message, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954* (Washington, 1960), pp. 352-364, or Department of State *Bulletin*, Apr. 19, 1954, pp. 602-607.

[4] Loans repayable in local currency rather than in dollars.

I believe that the policies which have produced this result in Mexico will be adequate generally in the hemisphere if Latin America is convinced that we will follow them in good faith.

These points obviously don't add up to a complete foreign policy for Latin America, but they are the most important features of an economic policy.

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[5] For additional information concerning this subject, see Department of State *Bulletin*, Sept. 6, 1954, pp. 339–340.

110.15 HO/9-1954

The Assistant Secretary of State for Inter-American Affairs (Holland) to the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward) [1]

SECRET BUENOS AIRES, September 19, 1954.

DEAR BOB: In every country I am, of course, trying to take up and achieve approval of our policies outlined for the Rio conference. In general my approach is along more or less the following lines:

Throughout the Hemisphere there is intense popular interest in the improvement of living standards as regards income, housing, education, nutrition, and so forth. Our governments must coordinate their efforts to convince the American peoples that within the free enterprise system they can hope to satisfy this aspiration.

The basic problem that we must study are the means to achieve this purpose.

The overwhelming majority of the burden of this task [*sic*] must rest upon the people and government of each state. However, *each* state should make a determined effort to contribute in accordance with its own capacity to the efforts of the other American States in this regard.

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[1] Between Sept. 5 and Oct. 10, 1954, Mr. Holland visited Mexico and all of the countries of South America for the purpose of explaining to and gaining acceptance among the leaders of the respective governments for the policies developed by the Sub-Cabinet Committee in preparation for the Rio Economic Conference.

Since the Caracas conference we have given intense study to the contribution which our own Government can make. In general, we feel that it falls in three categories:

1. *Commerce*

We feel that through intensified inter-American trade more than by any other means the nations can help strengthen their economies in order to achieve the basic goal indicated above. It will be our own policy to seek the expansion and stabilization of inter-American trade. To that end we shall seek the gradual, selective reduction of such barriers as tariffs and quotas.

In this connection I always point out that there are very strong sectors within our own people and Government who are sincerely opposed to general specific efforts in this field; that, therefore, our performance may not be uniformly consistent with those announced policies, but that it will be the basic guide to our actions.

I cite as instances of the application of this policy the President's decisions with respect to tung oil and the lead and zinc case. In this latter case I emphasize his statement to the effect that he would not achieve the obvious benefits to our local industry at the cost of substantial prejudice to friendly suppliers of lead and zinc.

2. *Government Finance*

I state that we believe in the private enterprise system. Not because of any peculiar sanctity, but because it has demonstrated itself to be the best vehicle for efficient production of goods and services yet known. I argue that the bulk of the capital needed for economic development should come from private sources, particularly those within the countries. The United States Government recognizes, however, that private capital is not available for many desirable economic development projects. The International Bank, an excellent institution, was created to meet this need and it would be short-sighted not to utilize its services to the utmost. Accordingly, it should be the first source of governmental finance for projects in which private capital is not interested. We recognize that there will be many sound projects which lie beyond the scope of the normal activity of the IBRD.[2] With respect to these the policy of our Government will be through the Export-Import Bank to satisfy *all* applications for economic development loans which satisfy the following requirements:

a. Projects for which neither private capital nor local governmental capital [3] is not available and which lie without the scope of activity of the IBRD,

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[2] The words "Export-Import Bank" were crossed out here and IBRD added by hand.

[3] The words "neither" and "nor local governmental capital" were added by hand.

b. Projects which are economically sound and are within the interest of both Governments, and

c. Projects whose amount exceeds neither the sound borrowing capacity of the applicant nor the lending capacity of the Bank.

It is our judgment that the lending capacity of the Ex-Im Bank is and will continue to be adequate to assure implementation of this policy.

The United States recognizes that there are sincere factors [*sic*] in Latin America who urge broad grant-aid programs or the granting of unsound loans. We feel that such programs of aid would demoralize our private institutions and businesses. Our experiences in Italy and in certain other areas of the world have satisfied us that such aid programs are not the best means either to strengthen local economies or to combat Communism.

3. *Technical Aid*

It will be our policy to expand and diversify technical aid, always respecting the wishes of the Governments affected both as regards the amount and the nature of our aid.

In Venezuela both the President[4] and Foreign Minister[5] assured me they would take the position that in these policies the United States has fully fulfilled the expectations of that Government. In Brazil the Ministers of Foreign Affairs[6] and of Finance[7] both gave us the same assurances. There, there were a number of officials including Roberto Campos, the Brazilian Consul General in Los Angeles and certain others in the Ministry of Foreign Affairs who state that this policy would provoke wide resentment as falling short of the value of aid generally expected. However, the two Ministers mentioned and assured us that by direct personal contacts they will undertake to convince the heads of other delegations that these policies are sound and reflect the most that should be expected of the United States.

In Uruguay the Minister of Finance[8] assured us that these policies satisfy the expectations of his Government and that their delegation will support us. We were given the same assurances by the President[9] and the Minister of Finance[10] in Paraguay. In a conference this morning with President Perón he stated emphatically that these policies were fully adequate, and that any policy of extensive grant-aid would be positively harmful to our prestige and relations in the Hemisphere.

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[4] Col. Marcos Pérez Jiménez.

[5] Aureliano Otáñez.

[6] Vincente Ráo.

[7] Oswaldo Aranha.

[8] Eduardo Acevedo Alvarez.

[9] Gen. Alfredo Stroessner.

[10] Carlos R. Velilla.

The foregoing is very closely the statement which I am making at each stop. I would be grateful if you would discuss it with Sam Waugh and others who may be interested. If you or they have suggestions for its improvement, please let me know. I realize, of course, that we have not yet reached the South American countries from which we can expect most of the discontent with these policies.[11]

With warmest regards,

Sincerely, HENRY

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[11] A memorandum by Mr. Woodward to Under Secretary Hoover, dated Oct. 5, 1954, reads in part as follows:

"I believe you will agree that the approach taken by Mr. Holland is very sound and clear. However, I wonder if you share my apprehension concerning the possibility that he may be too sanguine that the NSC policy on loans by the Export-Import Bank will actually be carried out. I am afraid that we will never have a clearly established policy with respect to the use of the Export-Import Bank for economic development until we obtain clear-cut Congressional sanction for this purpose. Under the authorizing law, the purpose of the Bank is to facilitate exports and imports. We have had recurring struggles in order to use the Bank as an instrument of foreign policy and economic development, because there is no *clear-cut* Congressional sanction for these purposes." (110.15 HO/10-554)

An undated note initialed by Mr. Hoover is attached to Mr. Woodward's memorandum and it reads as follows: "Return to ARA. Thanks, it looks encouraging."

S/S-OCB files, lot 62 D 430, "Rio Conference"

Paper Prepared by the Latin American Working Group of the Operations Coordinating Board [1]

TOP SECRET [WASHINGTON,] October 11, 1954.

SPECIAL REPORT ON PROPOSED U.S. POSITIONS FOR THE RIO CONFERENCE

A subcabinet committee is now preparing proposed U.S. position papers for the conference on U.S.-Latin American economic relations to be held at Rio de Janeiro starting November 22, 1954. While the papers are still undergoing revision, it is understood that the committee has decided upon the general policies which they reflect. The Working Group has studied the proposed position papers in the light of NSC 5432/1.[2] The purpose of this report is to call to the attention of the OCB cases in which the Working Group believes the proposed positions fall short of carrying out adequately the objectives and policies of NSC 5432/1.

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[1] A covering memorandum by OCB Executive Officer Elmer B. Staats, dated Oct. 11, 1954, is not printed. For information concerning the formation of the NSC Operations Coordinating Board, see the second editorial note, p. 44.

[2] Dated Sept. 3, 1954, and approved by President Eisenhower on the same date; for text, see p. 81.

I. *General Need to Reflect a Broadened and More Constructive Policy*

The Working Group understands NSC 5432/1 to envisage a broadened, more constructive and more affirmative U.S. economic policy toward Latin America as an essential measure for achieving basic U.S. objectives in that region. It is the opinion of the Working Group that, in the over-all, the presently proposed subcabinet position papers do not provide such an affirmative economic policy. The considerations which we have relied on in forming this judgment are these:

a. If the policies enumerated at Rio are to be successful in promoting basic U.S. objectives, as set forth in NSC 5432/1, they must: (1) actually make an effective and substantial contribution to the improvement of economic conditions in Latin America; (2) convince the predominant, reasonable elements in Latin America that the U.S. is genuinely interested in promoting the welfare and progress of that region.

b. Hemisphere solidarity may be jeopardized if the U.S. evades or procrastinates. Latin America will press for, and U.S. should try as far as possible to give forthright answers to Latin American proposals either by accepting them, rejecting them or offering realistic alternatives.

c. While Latin America may propose many changes in U.S. policy, the predominant, reasonable elements in Latin America will not expect the U.S. to accept all of those new policies. These elements, however, will not be satisfied with what they would consider simply a reaffirmation of present U.S. policies. To convince those elements that the U.S. is genuinely interested in promoting the welfare and progress of that region, the U.S. must broaden and clarify some of its present policies.

The Working Group believes that the U.S. position for the Rio Conference should be made more effective by taking a more positive stand regarding U.S. assistance to national and regional efforts for economic development.

In particular, the Working Group believes that the present position papers do not adequately carry out specific courses of action outlined in NSC 5432/1 which would serve this end. Examples are listed in Section II of this memorandum.

II. *Need to Carry out Specific Courses of Action Outlined in NSC 5432/1*

a. Paragraph 9*c.* of NSC 5432/1 states that, only if stable, long-term trading policies by the U.S. and financing of sound economic development projects by private capital, IBRD and EXIM Bank prove inadequate, the U.S. should finance through development assistance loans the initiation or acceleration of projects in the U.S. interest.

The presently proposed subcabinet position is that the U.S. will give no indication of the possibility of U.S. development loans outside the EXIM Bank at the Rio Conference, but will simply reaffirm its present policy that the U.S., through the EXIM Bank, will supplement the lending of the International Bank to the extent necessary to fulfill all applications meeting the criteria enumerated by Secretary Dulles at Caracas.

FOA, for example, plans to propose the following to the subcabinet committee as a substitute position:

> "The United States, through the Export-Import Bank, will supplement the lending of the International Bank for economic development purposes to the extent necessary to satisfy all applications for loans meeting the criteria enumerated by Secretary Dulles at Caracas. In addition the U.S. should offer to match funds up to $100,000,000 for the establishment of a Latin America Bank for economic development which would be under Latin American management and would make loans for projects not eligible for IBRD or Export-Import Bank financing."

There is an apparent difference as to interpretation of paragraph 9*c*. which is important to the position to be taken at Rio. Under one view, it can now be said that the other sources are inadequate—particularly since the EXIM Bank charter apparently permits financing only projects involving the export of U.S. capital—and that, under paragraph 9*c*., the U.S. should now undertake to finance development projects in the U.S. interest which are not financed by EXIM Bank or other sources. The other view is that paragraph 9*c*. contemplates a substantial test period in which to determine the adequacy of the other sources before the U.S. considers providing development loans outside present EXIM Bank policies.

The Working Group believes that U.S. economic policy toward Latin America would be made more constructive and effective, as envisaged by NSC 5432/1, if an interpretation were made that the U.S. is now prepared, under specified conditions, to provide development loans for projects not eligible for EXIM Bank financing, and if this position were announced at Rio.

b. Paragraph 9*g*. of NSC 5432/1 states that the U.S. should:

> "*g*. Consider sympathetically, but only on individual merit, any proposal by Latin American initiative to create regional economic actions and groupings to promote increased trade, technical cooperation and investment, and to concert sound development plans."

It is anticipated that the Latin American nations will offer at Rio a number of proposals for regional economic actions and groupings to promote trade and development. The Working Group questions whether the positions recommended by the subcabinet committee regarding such anticipated proposals, or similar proposals suggested by U.S. agencies, reflect the "sympathetic consideration" which paragraph 9*c*. contemplates.

The committee, for example, rejected a proposed U.S. position favoring establishment of a Latin American Bank for Economic Development to which the U.S. would match up to $100 million of the original capital contributed by Latin American individuals or governments but would leave the management in Latin American hands. The committee also rejected a proposed U.S. position favoring the establishment of a regional Payments Union to which the U.S. would loan $50,000,000 for the initial swing account.

The two regional actions which the subcabinet committee has decided to favor are: (1) annual regional discussions of development programs and (2) discussions of possible hemisphere preferential trade arrangements.

The Working Group questions whether the predetermined positions on regional actions to promote trade and development, which appear largely to be negative, are adequate to meet the intent of paragraph 9*g.* of NSC 5432/1.

c. Subsequent to the preparation of the position papers by the subcabinet committee, NSC 5432/1 was approved by the President. Courses of action enumerated therein included paragraphs 9*d.* and 9*h.*, the contents of which were not found in the older policy paper on this area (NSC 144/1). It is, of course, anticipated that the subcabinet committee will take under consideration the utilization of the authority in the Agriculture Trade Development and Assistance Act of 1954 [3] (paragraph 9*h.*). Along these same lines, the delegation should be provided with concrete proposals for increased specialized training of Latin Americans in the U.S. in the fields of finance, labor, management, agriculture, business and other specialized fields as a means of achieving economic development in the area (paragraph 9*d.*).

Recommendation: The Working Group recommends that the OCB consider whether the proposed U.S. positions for the Rio Conference fall short of the objectives and policies enumerated in NSC 5432/1, and that it advise the subcabinet committee of any shortcomings of the presently proposed positions.

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[3] For text of the referenced act (Public Law 480), approved July 10, 1954, see 68 Stat. 454.

MSA-FOA Director's files, FRC 56 A 632, "Rio Economic Conference"

Memorandum by the Acting Regional Director of the Office of Latin American Operations (Hardesty) to the Director of the Foreign Operations Administration (Stassen)

CONFIDENTIAL [WASHINGTON,] November 8, 1954.

Subject: FOA's Views Regarding the Proposed U.S. Positions for the Rio Conference

The Sub-Cabinet Committee on the Rio Economic Conference, so far as we can determine, has not yet completed its work of preparing proposed U.S. positions for the conference. Assistant Secretary Holland has, however, made public statements outlining in some detail the positions which the U.S. will take at the conference. These announced positions are in general agreement with the policies which, at this point, appear to be forthcoming from the Sub-Cabinet Committee. Mr. Hardesty has, in the Sub-Cabinet Committee, consistently noted FOA's dissent on a number of proposed positions, and as we understand it, other agencies (notably Defense and Labor) have also noted some dissents. The following are the main proposed positions on which FOA has dissented:

1. *Development Financing*

There is general agreement that, from the standpoint of

(1) the needs of Latin America for development capital in order to achieve the economic development which U.S. interests require in that region, and

(2) the views of the reasonable elements in Latin America as to the assistance which the U.S. should provide to that region in obtaining needed development capital,

the U.S. position at Rio should indicate that the U.S. is prepared to give greater assistance to that region in obtaining needed development capital than it has provided up to now.

The proposed U.S. position on development financing is that the U.S., through the Eximbank exclusively, will make loans available for economic development projects where:

(*a*) funds are not available from private sources, from other governmental sources, or from the IBRD,

(*b*) the loan is economically sound,

(*c*) the project is in the mutual interest of the two governments and their peoples,

(*d*) the loan is within the lending capacity and charter powers of the Eximbank.

It is FOA's view that, for various reasons, the Eximbank will not find it possible to fulfill all of the financing requirements of Latin America which are not met from non-U.S. sources and which, from the standpoint of Latin America's needs and expectations, it is in the U.S. interest to meet. The established U.S. policy for the hemisphere is that, where trade and the development loans available from private sources, IBRD and the Eximbank are inadequate for the purpose (and only where these sources are inadequate), the U.S. will finance, through development assistance loans, the initiation or acceleration of projects which are in the basic U.S. interest and which would otherwise not be undertaken or would not be carried out at the rate required by U.S. foreign policy objectives. In accordance with its understanding of this established policy and basic U.S. objectives in Latin America, FOA believes that the U.S. should undertake the following program to supplement the other sources of development capital available to Latin America, and that the United States should announce this program as part of its position at the Rio Conference.

(a) Bilateral Development Assistance Financing.

FOA believes that the U.S should undertake to provide bilateral development assistance financing to meet requirements of Latin American countries which come within the broad standards set out in the established policy described above. Such financing would normally be on a loan basis with the option of repayment in local currency, although provision should be made for grants as necessary to meet emergency situations such as were recently encountered in Guatemala and Bolivia.

(b) Assistance to a Latin American Regional Development Bank.

FOA believes that the U.S. position at Rio should be to respond favorably to the Latin American initiative for the establishment of a Latin American regional development bank by a counter-suggestion limiting it to a bank to which the U.S. would be prepared to provide $100 million of the original capital on a loan and matching basis. The primary function of the Bank would be to provide comparatively small loans to private Latin American businesses for the development of industrial and related productive enterprises.

The Sub-Cabinet Committee has rejected the FOA proposal, and Secretary Holland has publicly announced that the United States will oppose proposals for the establishment of a new Latin American or Inter-American development bank.

FOA believes that a regional development bank such as it has proposed would go far toward fulfilling Latin America's acknowledged need for increased assistance from the United States in obtaining development capital. This proposal promotes the announced general U.S. objective of orderly economic development in Latin America, and in addition, furthers the established U.S. policy of evidencing sympathetic consideration for Latin American regional economic actions to concert sound development plans.

2. *Financing Expanded Intra-Regional Trade.*

In order to further the announced U.S. objective of orderly economic development in Latin America by helping to expand intra-regional trade, and to carry out the established U.S. policy of evidencing sympathetic consideration for proposals for constructive Latin American regional economic actions to promote increased trade, FOA has proposed that the U.S. at Rio favor the establishment by the Latin American countries of a clearing union in which foreign exchange balances arising out of international transactions could be settled in sterling or in dollars, and that the U.S. announce its willingness to loan at least $50 million for the initial swing account of such a clearing union. The Sub-Cabinet Committee has rejected the FOA proposal. Secretary Holland has made no mention of this topic in his public statements and, so far as we know, the Sub-Cabinet Committee is not preparing any position on it for Rio.

The two topics just discussed are the main ones on which FOA has regularly registered a strong dissent in the Sub-Cabinet Committee against the tentative position proposals of that Committee. FOA has also pressed for expansion and clarification of other tentative Sub-Cabinet proposals, as follows:

1. *Technical Cooperation*

According to Secretary Holland, the U.S. at Rio will take the position that it will strengthen and diversify the technical cooperation program in Latin America, as may be desired and requested by the Governments of that region. The Sub-Cabinet Committee will undoubtedly propose the same position, perhaps suggesting also that the United States announce its intention to program technical cooperation on a longer term basis. This position is in accord with the established policy on technical cooperation.

FOA is in agreement with this proposed position, but believes that the position should be clarified and strengthened in the following two respects:

(*a*) The U.S. should be prepared to make clear at Rio that, to the extent that may be necessary to accomplish the desired strengthening and diversification of the technical cooperation program, the U.S. is prepared to seek moderate increases in the funds annually appropriated for this program.

(*b*) In addition, FOA believes that the U.S. position should expressly state that the U.S. intends to expand training in the U.S. for Latin Americans in specialized fields important to the economic development of Latin American countries. This is directly in line with established policy.

2. *P.L. 480 Use in Latin America*

Assistant Secretary Holland's statements have made no mention of the possible utilization of P.L. 480 (Agricultural Trade Development and Assistance Act of 1954) in Latin America, and so far as we know, no proposed position has been prepared by the Sub-Cabinet Committee.

FOA believes that the U.S. should make as encouraging a statement as is feasible on this subject at Rio.

3. *Investment Guaranty Program*

As we understand it, the proposed Sub-Cabinet Committee position is that the U.S. should simply be prepared to answer any questions which the Latin Americans may raise at Rio regarding the investment guaranty program.

FOA recommends that the U.S. make an affirmative statement on that program at Rio and that, furthermore, in informal discussions, the U.S. express a willingness to attempt to work out the problems which have, so far, held up the extension of that program in Latin America.

Congress has emphatically called for more vigorous action to get this program underway in Latin America.

4. *Measures to Stabilize World Market Prices for Latin American Products*

According to Secretary Holland's public statements, the U.S. position is that it does not favor any measures that have so far been proposed to help stabilize prices, but that it is "not unwilling to consider those proposed by other American states." The position, in effect, is that the U.S. will reluctantly acquiesce in discussions of this problem when Latin American countries insist. The FOA position is that the U.S. should express a willingness to discuss this problem.

Conference files, lot 59 D 95, CF 412

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)

SECRET [WASHINGTON,] November 10, 1954.

Subject: NSC Consideration of Position for Rio Economic Conference

There are indications that dissatisfaction with the positions we intend to take at Rio is broader than purely a State–FOA–Treasury matter.[1]

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[1] In a memorandum to Acting Secretary Hoover, dated Oct. 13, 1954, Operations Coordinator Radius stated in part that "FOA is aggressively pushing particular proposals which go further than State feels it desirable to go while, on the other hand, the Treasury Department is unwilling to take even the minimum steps which the State Department considers desirable. The real problem is how to secure a middle-of-the-road program between the Treasury and the FOA positions." (S/S–OCB files, lot 62 D 430, "Rio Conference")

In a memorandum to Mr. Hoover, dated Nov. 9, 1954, the Special Assistant to the Under Secretary of State, Max W. Bishop, noted the strong feeling in FOA and the Department of Defense that the United States had not gone far enough to meet the desires of the Latin American countries for economic cooperation, and he stated in part the following: "I am informed that some of the 'heat' in Defense and FOA comes from the bu-

Defense has shown a great deal of interest in the Conference and has sided with FOA in their views on the positions for the Conference. CIA, to a more limited degree, has similar views.

In the meantime, Andy Overby has handed me a rough draft of the address Mr. Humphrey plans to make at one of the early Plenary sessions of the Conference (Tab A).[2] I understand from Mr. Overby that this draft was prepared by the Treasury staff and has not as yet been seen by Mr. Humphrey. Nevertheless, the tenor of the speech is not as forthcoming as our position and would not adequately reflect the views we wish to present at Rio.

In light of these factors, it seems to me very important that:

1. Treasury be put very clearly on the record regarding their approach to the Conference.
2. We allow the reactions of FOA, Defense and other agencies to have full play against the Treasury position.
3. We avoid getting this Department into a position where we are attacked from both sides.

I believe that the Department's spokesman should not open discussion of the Rio Conference in the NSC. If the presentation were made by Treasury the opposing agencies would direct their comments to Treasury. Our position would then be put in the most reasonable light as a follow up to the views of the extreme elements. We should utilize the forthcoming OCB and NSC meetings to get the positions for the Conference thoroughly discussed by the interested agencies and to bring into the open any centers of resistance in the Government, which, if allowed to exist, may later plague us at Rio.

You informed us in our meeting Saturday that you expect to represent the Department at the NSC meeting on Monday, November 15, when an oral report on the preparations for the Rio Conference is to be given. The OCB minute[3] indicates that "the Chief of the U.S. Delegation to the Rio Conference is scheduled to brief the NSC . . . on the position to be taken by the U.S. Government". I understand that the NSC has no preference as to which Department makes the presentation.

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reaucratic belief that Mr. Holland did not utilize interdepartmental coordinating machinery sufficiently to allow such agencies as FOA to air their views completely." (S/S-OCB files, lot 62 D 430, "Rio Conference")

[2] Not attached to source text. For the text of Mr Humphrey's address as delivered to the second plenary session of the conference on Nov. 23, 1954, see *USDel Report: Quitandinha*, Appendix 5, or Department of State *Bulletin*, Dec. 6, 1954, pp. 863–869.

[3] Reference is to the OCB meeting of Oct. 13, 1954; the record of the minutes of the meeting is in S/S-OCB files, lot 62 D 430, "Minutes".

Recommendation

I recommend that you call Mr. Humphrey to suggest that he, as Chairman of the Delegation, make the presentation to the NSC in accordance with the OCB minute.

If you approve this course of action and are successful in having Mr. Humphrey make the presentation, Mr. Bowie will notify the NSC so that the agenda can be arranged accordingly.[4]

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[4] S/P concurred in the recommendation. The source text bears the following unsigned, handwritten notation: "No action required."

Eisenhower Library, Eisenhower papers, Whitman file, NSC records

Memorandum of Discussion at the 224th Meeting of the National Security Council on Monday, November 15, 1954[1]

TOP SECRET EYES ONLY

Present at the 224th Council meeting were the President of the United States, presiding; Under Secretary Hoover for the Secretary of State; the Secretary of Defense; the Director, Foreign Operations Administration; the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Director, Bureau of the Budget; the Director, Selective Service System; General McLain for the Chairman, National Security Training Commission; the Director, U.S. Information Agency; the Deputy Secretary of Defense; the Secretary of the Army; Assistant Secretary Pratt for the Secretary of the Navy; the Secretary of the Air Force; Assistant Secretaries of Defense McNeil, Burgess, Seaton and Floete; Assistant Secretary of the Army Milton; the Deputy Assistant Secretary of Defense (Manpower & Personnel, Military); the Military Assistant to the Secretary of Defense; Capt. John R. Leeds, USN, and Col. James A. Norell, Department of Defense; James H. Taylor, Assistant Director for Manpower, FOA; the Acting Chairman, Joint Chiefs of Staff; Admiral Duncan for the Chief of Naval Operations; the Vice Chief of Staff, U.S. Air Force; the Commandant, U.S. Marine Corps; the Director of Central Intelligence; the Assistant to the President; Robert Cutler, Special Assistant to the President; the Deputy Assistant to the President; the White House Staff Secretary; Bryce Harlow, Administrative Assistant to the President; the Executive Secretary, NSC; the Deputy Executive Secretary, NSC; and George Weber, NSC Special Staff.

There follows a summary of the discussion at the meeting and the main points taken.

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[1] This memorandum was drawn up by S. Everett Gleason, Deputy Executive Secretary of the NSC, on Nov. 16.

[Here follows discussion concerning reserve mobilization requirements.]

2. *Position of the U.S. at the Rio Conference* (NSC 5432/1)

Mr. Cutler briefed the Council, pointing out that the U.S. position to be taken at the Rio Conference had been based on NSC 5432/1, the policy report on Latin America, approved September 3, 1954. However, Mr. Cutler said he had been informed that questions of interpretation of this policy paper had arisen in the course of preparing the position for the Rio Conference. This was especially true of paragraphs 9-*b*, 9-*c* and 9-*g* of NSC 5432/1. Mr. Cutler then called on Secretary Humphrey, as head of the U.S. delegation to the Rio Conference, to outline the U.S. position.

Before reading his report, Secretary Humphrey said that he would be leaving this week for the Rio Conference, which would last, he expected, about two weeks. He would be in charge of the U.S. delegation for the first week, and Under Secretary of State Hoover would be in charge the remainder of the session. Secretary Humphrey then observed that Assistant Secretary Holland had been busily engaged throughout Latin America in doing the ground work for the forthcoming conference. In the course of this preparatory work Mr. Holland had encountered both criticism and approval—criticism for our failure to agree to unsound projects; approval for our agreement to go along with sound projects.

It would be the general purpose of the U.S. delegation to present the Rio Conference in the first instance with an outline of what the United States had already done—by way of sound enterprises—on behalf of the various Latin American countries. Secondly, we would indicate our intention to resist other projects which had been proposed, because such projects were deemed by us to be unsound. At the conclusion of these opening comments, Secretary Humphrey said that the entire U.S. delegation would meet the next afternoon,[2] Tuesday, to go over the draft of the final U.S. position.

Thereafter, Secretary Humphrey outlined the following five points as indicating the positive content of the U.S. position at the Rio Conference:

1. The United States would undertake to maintain, as absolutely basic, a high level of economic activity in America, because this was not only vital for the welfare of Latin America but for all the rest of the free world.

2. The United States would take further sound steps toward convertibility and the removal of restrictions and restraints on commerce and trade.

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[2] No record of the referenced meeting was found in Department of State files.

3. The United States would do its utmost to encourage increased private investment as being of the essence of economic progress in the hemisphere.
4. The United States would show particular concern for increased local investment because it believed that investment of local capital in the various republics was far more significant than investment in them of foreign capital.
5. The United States would press for the extension of technical assistance programs and developmental programs.

Commenting on the above positive U.S. positions, Secretary Humphrey characterized them all as "constructive". They would include ways and means for the investment of public funds in sound projects, on the basis that this kind of investment would ultimately lead to the desirable increase in private investment. The United States would also undertake to negotiate new treaties with the Latin American republics dealing with taxation issues.

After thus summarizing the positive aspect of the U.S. position, Secretary Humphrey indicated various proposals and suggestions that the U.S. delegation had decided to oppose at Rio:

1. The UN proposal, which set up a goal of $1 billion which would have to be spent each year on some project or other. This proposal, complained Secretary Humphrey, was just like the Marshall Plan in philosophy, only not so big.
2. The United States would resist a variety of commodity price stabilization schemes which had been proposed by Latin American countries.
3. The United States would oppose such regional preferential arrangements among the Latin American nations as would require U.S. financial support for their operation.
4. The United States would oppose the project for a new Inter-American Bank. There were already three banks in a position to extend loans to Latin American countries, and there was no need for another.

At the conclusion of this list of negative positions, Secretary Humphrey reverted to Mr. Cutler's earlier point that differences of interpretation had arisen regarding paragraphs 9–*b*, 9–*c* and 9–*g* of NSC 5432/1. He confirmed Mr. Cutler's statement, and requested the National Security Council to provide clarification of the points at issue respecting the meaning of these paragraphs.

Secretary Humphrey turned first to paragraph 9–*b*, which read as follows:

"*b*. Be prepared to assure the financing of all sound economic development projects, for which private capital or IBRD financing is not available, through Export-Import Bank loans; subject to each loan being:

> "(1) in the interest of both the United States and the borrowing country.

"(2) within the borrower's capacity to repay,
"(3) within the Bank's lending capacity and charter powers."

Secretary Humphrey said that it was his conviction that this language was too broad and the course of action too open-ended. He therefore recommended that the word "assure" in the first line be replaced by the word "assist", and that the word "all" in the first line be deleted.

Secretary Humphrey then read paragraph 9–*c*, as follows:

> "*c*. Only if *a* and *b* above prove to be inadequate, finance through development assistance loans the initiation or acceleration of projects or activities which are in the basic U.S. interest and which, in the absence of such additional assistance, would not be undertaken or, if undertaken, would not be carried forward at the rate required by U.S. foreign policy objectives."

Secretary Humphrey observed that in effect this course of action called on the United States to make "fuzzy" loans to Latin American countries, not on economic grounds but because such fuzzy loans were in the interests of furthering our national security. In order to qualify somewhat the approval of fuzzy loans, Secretary Humphrey suggested the addition of the following phrase between the words "inadequate" and "finance" in the first line: "and only after further review of the particular case by the National Security Council".

The President said he thought this was the right idea, and inquired who would make such loans. Secretary Humphrey replied that he did not know, but supposed that it would be some Government agency or else one of the International Banks. The President then suggested that it might be a good idea to create a group of individuals who would be in a position to make recommendations for Council action when the Council did review particular cases, as called for by Secretary Humphrey's proposed addition to paragraph 9–*c*.

Mr. Cutler indicated concern over the apparent intention of Secretary Humphrey to amend NSC 5432/1. He recalled the discussion of paragraph 9–*b* at the Council meeting when the report was approved.[3] The deliberation had been lengthy and detailed, and Mr. Cutler warned against hasty changes in paragraph 9 without adequate staffing by the Planning Board and the interested departments. With respect to the proposals for a change in paragraph 9–*c*, Mr. Cutler insisted that the National Security Council had never intended paragraph 9–*c* to countenance resort to fuzzy loans and the like until the failure of the courses of action set forth in paragraph 9–*b* had been clearly demonstrated. Accordingly, if it was proposed to revise paragraph 9–*c*, Mr. Cutler suggested that it would be in clear consonance with the prior Council discussion and action if language were inserted to provide perhaps a year's time to see how the courses of action in *a* and *b* actually worked out. This would be preferable to the proposal for having a Council review on a case-by-case basis. Secretary Humphrey said that he would be delighted to go along with this suggestion, since that was all he wanted to achieve. The President suggested adding also that the courses of action in 9–*c* should not be carried out except with the express approval of the President. He turned to the Secretary of the Treasury, however, and asked him to remember that all these things we were doing or proposing to do in Latin America, we were doing in our own self-interest. This being the case, and if we were careful and cautious, he believed that perhaps the word "assure" rather than the proposed word "assist" was the right word for paragraph 9–*b*.

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[3] For discussion of proposed changes to NSC 5432/1 at the 212th meeting of the NSC on Sept. 2, 1954, see the memorandum of discussion, p. 67.

Secretary Humphrey continued to argue strongly against any course of action which would assure Latin Americans that we would agree to finance every project which they asked us to finance. Mr. Cutler observed that he thought this was somewhat unfair, since the paragraph as written contained three clearly stated qualifications on the freedom of the United States to finance all such proposals. Secretary Humphrey argued that the gist of the course of action in 9–*b* had been advertised throughout the length and breadth of Latin America, and there was very great danger that, as a result of such advertising by U.S. Government agencies, the Latin Americans would come to us and ask for assistance which we would be in no position to give them. Refusal to accord loans and other things they wanted would be bound to affect adversely our relationships with these countries.

Expressing surprise, the President inquired whether all the policies discussed in the National Security Council were thus advertised all over the world. It was pointed out that this was not the case, either in this or other areas.

Secretary Hoover then suggested that perhaps Secretary Humphrey's point regarding paragraph 9–*c* could be met if the sentence were recast so that it would begin rather than end with the three qualifications on our loan policy. This, at any rate, would give greater emphasis to these qualifications on our freedom of action. Secretary Humphrey professed that this would be very satisfactory to him.

Secretary Humphrey then turned to paragraph 9–*g*, which read as follows:

> "*g.* Consider sympathetically, but only on individual merit, any proposal by Latin American initiative to create regional economic actions and groupings to promote increased trade, technical cooperation and investment, and to concert sound development plans."

He then suggested that he would like to revise this paragraph by omitting the word "sympathetically" in the first line. The President interrupted to say that he was in agreement with this proposal, and Secretary Humphrey went on to suggest further amendment by adding a *caveat* against any United States financial commitment to assist Latin American regional economic groupings which had as an objective any discrimination against U.S. trade and commerce.

Mr. Cutler explained the legislative history of this proposal, including the reasons why the Council had been inclined to accept regional groupings in Latin American countries, even though with some misgivings. Governor Stassen said that while he would not oppose Secretary Humphrey's proposed revision of paragraph 9–*g*, since Secretary Humphrey was chairman of the U.S. delegation, he nevertheless felt obliged to state, on behalf of the Foreign Operations Administration staff, that FOA regarded this and other aspects of our policy toward Latin America as very seriously inadequate to meet our needs. He also predicted that the proposed U.S. position at the Rio Conference would evoke a very negative reaction. It did not meet the obvious needs of Latin America from a number of points of view. In the first place, the Latin American countries plainly want to join together in some kind of regional economic grouping. Equally plainly, in the second place the Latin American republics want to sit down and talk over the serious problem of raw materials. We have opposed becoming involved in agencies to control prices of raw materials, but it would be at least useful to agree to discuss these commodities with the Latin Americans, even if we rightly refuse to join in any agreements on the subject. Thirdly, the level of investment in the Latin American republics had long been too low and still was. In conclusion, Governor Stassen reiterated that he was not proposing to argue in favor of his beliefs, but that "we in FOA want to flag" the serious inadequacy of this policy, even though it is the responsibility of others to make the decisions.

After Mr. Cutler had summarized the prior Council discussion of paragraph 9–*g*, the President stated his belief that the United States should certainly not use its funds to encourage regional economic groupings which would adversely affect the trade and commerce of the United States.

Secretary Humphrey noted the very considerable difference between regional groupings in Europe and in Latin America. In Europe a very high percentage of trade and commerce took place between the various European countries; whereas only about 10% of the total Latin American commerce was conducted among the Latin American countries themselves. If we could make them clearly understand that they must not expect us to finance their regional economic groupings or for us to support actions by such groupings which discriminate against the United States, that was all that he, Secretary Humphrey, would ask for.

The President pointed out to Secretary Humphrey that it was much more important for the United States to achieve a good climate of opinion in Latin America than to agree to the various specific items on this program for the U.S. position at Rio. You must think, said the President, of our policy in Latin America as chiefly designed to play a part in the cold war against our enemies. Russia, he warned, would shortly step into any vacuum if we allowed one to develop in Latin America. Apropos of the President's remarks, Mr. Allen Dulles noted the rapid increase in trade between the Soviet bloc and Latin America in the last year and a half. Much of this trade, said Mr. Dulles, was "political" rather than "natural" trade.

The President continued by pointing out to the Council that the United States was not merely "doing business" in Latin America, but was fighting a war there against Communism. Second, said the President, the Spanish-settled countries of Latin America have a simply incalculable pride. They still feel that we do not treat them equally with Europe and Asia, and our policies toward Latin America must be sure to meet this point of their great pride. Pay attention to this idea of equality and to the importance Latin Americans attach to personalities.

Secretary Humphrey said that he merely wanted to emphasize how important it was, prior to the Conference, that the interested Government agencies—State, Treasury and FOA—all go there with the same interpretation of paragraph 9–*g*. The President suggested that the pragmatic approach to 9–*g* might be the best. If any of the 9–*g* proposals or programs turn out to involve United States financial support, indicate that we cannot agree at once, but that the case must be taken up with the "head of the nation".

Governor Stassen then launched into a strong statement in support of the value of an Inter-American Bank. Secretary Humphrey opposed this proposal with equal vehemence. Secretary Hoover at least agreed with Secretary Humphrey's view of the necessity of agreement on the meaning of paragraph 9–*g*. With regard to it, to all other paragraphs, and indeed to all NSC papers of this type, the Council should remember that these papers become the Bible of U.S. officials both here and abroad. Accordingly, if any misunderstanding exists, such misunderstanding should promptly be removed.

Mr. Cutler reminded the Council that the President had approved the proposal for dropping the adverb "sympathetically" and of adding a *caveat* against U.S. support for Latin American economic regional groupings. Governor Stassen, however, argued for paragraph 9–*g* as it had originally been written, and indeed went on to suggest an even more sympathetic approach to such regional groupings. Mr. Cutler indicated his strong hostility to any proposal which amounted to revising rather than interpreting existing policy. If NSC 5432/1 needed to be revised, the revision should occur only after proper staffing.

The President again expressed the view that our policy ought to emphasize the objective of making the several Latin American republics more interdependent economically and less dependent on the Soviet Union. He reiterated his point that this was primarily a cold war problem. However, said the President, he was wholly on Governor Stassen's side in not desiring to see our delegation put in the position of having to refuse flatly to consider any request from a Latin American republic for something we turned down simply because it wasn't noted approvingly in our policy. There should be no such flat turn-downs, and on such cases the U.S. delegation should consult with Washington before reaching a decision.

Mr. Cutler returned to his position against hasty last-minute changes in agreed policy papers, and suggested that if Governor Stassen desired to propose amendments to NSC 5432/1 he should wait to do so until after the end of the Rio Conference.

The President said that he did not take kindly to the apparent ideas of Mr. Cutler that if any of these policies involved U.S. money it was at once kaput. Secretary Hoover suggested leaving in the adverb "sympathetically" in paragraph 9–*g* but adding the proposed financial *caveat.* Governor Stassen said he preferred language to the effect that "if it costs money you have to come back to Washington".

The President said he had come to hate these long drawn-out papers which lay down hard and fast rules for carrying out every detail of a program. He would much prefer to trust to our negotiator (looking at Secretary Humphrey) to meet any new conditions which might arise on the spot. He can always relay doubtful cases back to Washington.

Secretary Humphrey, however, still professed to be strongly opposed both to the regional groupings proposed in paragraph 9–*g* and, particularly, to the proposed new Inter-American Bank. Turning to Governor Stassen, he said, "Let's be specific. Are you going down there and advocate the Bank as you have been doing all over the place up to now?" Governor Stassen denied that he had advocated any Inter-American Bank outside the circles of the United States Government. While, said Governor Stassen, he would of course abide by the authority of the Secretary of the Treasury as head of the U.S. delegation, he nevertheless believed in the idea of a new Inter-American Bank.

The National Security Council:

a. Noted and discussed the oral presentation on the subject by the Secretary of the Treasury, the U.S. Delegate to the Conference.

b. Adopted [4] the following amendments to NSC 5432/1:

(1) *Paragraph 9–b:* Revise to read as follows:

"*b.* Through Export-Import Bank loans—provided each such loan is (1) in the interests of both the United States and the borrowing country, (2) within the borrower's capacity to repay, and (3) within the Bank's lending capacity and charter powers—be prepared to assure such financing of all sound economic development projects, for which private capital or IBRD financing is not available."

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[4] NSC Action No. 1270–*b*.

(2) *Paragraph 9–c:* Revise the first line to read as follows:

"*c.* Only if action under *a* and *b* above over a period of time demonstrates that these courses of action are inadequate, and then only with Presidential approval in each case, finance".

(3) *Paragraph 9–g:* Add at the end:

"; with the understanding that any such proposal would not involve discrimination against U.S. trade and that no additional U.S. financial commitments would be involved hereunder without further consideration by the National Security Council."

Note: The amendments to NSC 5432/1, as adopted in *b* above and approved by the President, subsequently circulated to all holders of NSC 5432/1 [5] and referred to the Operations Coordinating Board as the coordinating agency.

[Here follows discussion of a Soviet attack on a United States reconnaissance plane off Hokkaido Island.]

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[5] President Eisenhower approved the Council's action on Nov. 16; the amendments were incorporated into revised pages for NSC 5432/1, transmitted to all holders of that document on Nov. 16. (Memorandum by Mr. Lay, dated Nov. 16, 1954, S/P–NSC files, lot 62 D 1)

OAS files, lot 60 D 665, "Memorandums of meetings"

Memorandum of a Meeting of Certain Members of the United States Delegation [1]

CONFIDENTIAL [QUITANDINHA,] November 25, 1954.

Participants: Secretary Humphrey, Treasury
Under Secretary Hoover, State
Assistant Secretary Waugh, State
Assistant Secretary Overby, Treasury
Assistant Secretary Anderson, Commerce
Assistant Secretary Holland, State
Dr. FitzGerald, FOA
Dr. Hauge, White House
Mr. Cale, State

For only a portion of the meeting:
Isaiah Frank, State
George H. Willis, Treasury
Hawthorne Arey, Export–Import Bank

The above group met to discuss and to attempt to resolve a number of problems now faced by the delegation.

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[1] Drafted by Mr. Cale.

1. *Regional Trade Arrangements*

There was considerable discussion of the recent amendment, made on the initiative of Treasury, of the portion of the NSC policy statement on Latin America dealing with regional arrangements. Mr. Overby maintained that the amendment meant that we would not approve regional trade arrangements if they involve discrimination against the US as compared with countries either inside or outside of the arrangements. In this position he was supported by Mr. Anderson. Mr. Holland stated that our position paper on regional arrangements [2] for the conference had contemplated that we would not oppose regional trade arrangements which discriminated against us as compared with countries in the trading area, provided we received nondiscriminatory treatment as compared with countries outside the area and that the arrangements met a number of other conditions. Mr. Humphrey took the position that the amendment to the NSC policy statement had to be interpreted in such a way as to permit arrangements of this nature, if it was to have any meaning at all. Mr. Hoover agreed with this position and recounted some of the legislative history on the development of the present NSC policy on Latin America, including the amendment in question. He also called attention to the fact that our position contemplates that the arrangements would be proposed on Latin American initiative, and that we would examine each on its individual merit.

The resolution [3] on which the Argentine Delegation has asked our comments regarding Latin American trade arrangements was then discussed. During a part of this discussion Mr. Frank was asked to participate. It was decided that Mr. Frank, without releasing the text to the Argentine Delegation, should suggest to the Argentine Delegation that if that delegation introduced a resolution along the following lines, the US would support it:

> "*Resolves:*
>
> To entrust to the IA–ECOSOC the preparation of a study analyzing the possibilities of regional trade arrangements as the basis for the expansion of trade and the promotion of economic development among the countries of the area which may be permissible under the provisions of the GATT as now constituted or as they may be amended." [4]

It was also agreed that a subcommittee of Mr. Waugh, Mr. Frank, Dr. Hauge and Mr. Atwood would constitute a working group on this matter and would make any further recommendations needed with respect to it. Since Mr. Waugh was leaving for Rio de Janeiro in a short time, it was decided that Dr. Hauge would act as Chairman of the group during the day.

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[2] Apparent reference to the undated position paper on "Latin American Proposals for Regional Preference Arrangements," designated MFE P-1c/1 Rev 1, which was approved by the Interdepartmental Committee on Aug. 2, 1954; a copy is included in Position Book 1, OAS files, lot 60 D 665.

[3] A copy of the referenced draft resolution, which the files indicate was not an official document submitted to the conference, is in Conference files, lot 59 D 95, CF 406.

[4] For text of the resolution on this subject actually adopted by the conference, see *USDel Report: Quitandinha*, p. 30.

At this point Secretary Humphrey had to leave for another appointment.

2. *Inter-American Bank*

Mr. Arey and Mr. Willis were invited to participate during the discussion of this item and remained for the rest of the meeting.

After rather full discussion of the Maschke Plan [5] for an Inter-American Bank it was agreed that we would, for the present, take no position. It was also agreed that if asked for our views we would state that we would like to know more about the position of Cuba and Venezuela before making up our minds. It was also agreed that we would indicate that it would also be desirable before reaching a decision to have the views of the IBRD, of which many of the Latin American countries are, of course, members.[6]

3. *Economic Development Programs*

The group approved the suggested position on economic development programming [7] which had been developed by Messrs. Holland, Willis and Cale, with suggested amendments that had been proposed by Mr. Atwood subject to the following further changes.

a. That the paragraph from Secretary Humphrey's address to the conference dealing with programming should be added to the paper.

b. That the following sentence should be added after the first sentence of paragraph 2(*c*). "Call attention to the availability of assistance in programming from the International Bank."

c. That the expression "in which the United States is included" should be inserted between the word "commission" and the word "should" in the last sentence of paragraph 2(*c*).

d. That the brackets should be removed from the final sentence on page 3.

(See copy attached.) [8]

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[5] A plan developed in Chile which proposed the establishment of a fund consisting of the gold and dollar reserves of the Latin American countries in the United States. Each country would deposit dollar reserves in the fund and would be able to borrow up to the amount of its deposit. The United States would agree to discount up to an amount equal to one-third of the capital deposited in the fund, and this would be protected by the amount of gold reserves.

[6] Resolution 62/54, approved by the conference on Dec. 2, resolved to create a committee of experts to draft a plan for a regional financial institution; for text, see *USDel Report: Quitandinha*, p. 58. The U.S. Delegation abstained from voting on the resolution; for text of its statement of abstention, see *ibid.*, Appendix 13.

[7] Reference is to a paper titled "Suggested Position on Economic Development Programming"; a copy, dated Nov. 29, 1954, is in Conference files, lot 59 D 95, CF 411.

[8] Not attached to the source text.

4. *US Participation in UN Advisory Committee on International Commodity Trade*

Mr. Hoover, at Dr. FitzGerald's suggestion, informed the group of the contents of a telegram which he had just received from Washington indicating that the United States had been elected to membership in the above-mentioned commission and raising the question, in view of the relationship of this development to some of the items on the agenda for the conference, whether the United States should reverse an earlier decision and accept membership in the commission. Following a brief discussion during which it was pointed out that Secretary Humphrey might very well have a definite opinion on the subject, it was decided to defer consideration of this item until tomorrow.[9]

5. *Tax on Transportation in the Caribbean*

This item was mentioned but it was pointed out that no definite position could be taken on it until the precise views of Secretary Humphrey were known. Further consideration was, therefore, deferred until tomorrow.[10]

6. *Consultation* [11]

It was indicated that further consideration would have to be given to this question but it was agreed that the United States should always be willing to sit down and discuss outstanding problems with other countries which so request. Mr. Anderson said that he would like to have this item on the agenda for tomorrow morning's meeting since he believed that we should develop a definite position on it as soon as possible.[12]

7. *Loans Falling Outside the Scope of Activities of the IBRD*

Mr. Holland pointed out that various statements have been made by spokesmen for the U.S. Government indicating that the Eximbank would be prepared to make certain loans falling outside the normal scope of activities of the International Bank. He said that as a result he had been asked the question by Mr. Eugene Black and by others as to just what were the types of loans that we considered as falling outside the normal scope of activities of the International Bank. Mr. Holland said that he believed that there was a need for a definite statement that we could make to persons asking this question. He then requested that Mr. Arey, Mr. Overby and Mr. Anderson prepare a paper [13] giving the best possible answer to this question for consideration at tomorrow's meeting. Mr. Overby said that the group would attempt to comply with the request.

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[9] In the memorandum of discussion at the meeting of the heads of the U.S. Delegation on Nov. 26, drafted by Mr. Cale, Mr. Humphrey is recorded as having indicated "that our aim should be to stay out of the commission entirely." (OAS files, lot 60 D 665)

[10] The memorandum of discussion on Nov. 26 also records Mr. Humphrey as having stated the following: "we should not support a resolution proposing amendment of the tax but . . . we could state in explaining our negative vote or abstention that we would give further study to the situation with a view toward removing the tax on transportation between points in the United States if some practicable way can be found of so doing and still enforce the tax uniformly within the United States."

[11] Reference is to consultation procedures concerning economic and financial matters, particularly in connection with serious problems resulting from fluctuations in the prices or markets of basic commodities.

[12] In the memorandum of discussion at the meeting of the heads of the U.S. Delegation on Nov. 27, drafted by Mr. Cale, Mr. Hoover is recorded as having stated, in part, that "our position for this conference be to point out that the matter is actively under consideration in Geneva [at the Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade] and that whatever is agreed to there on our part will apply to the Latin American countries that are not members of GATT." (OAS files, lot 60 D 665)

For documentation relating to the Ninth Session of GATT, see volume I.

8. *Taxation and Tax Treaties*

Mr. Overby reported that the US Delegation would introduce a resolution later during the day on this subject if the Conference Secretariat should decide that it is necessary, procedurally, to do so in order to have a working group set up on the subject of taxation and tax treaties at the conference.[14]

9. *Resolution on Financing of Economic Development*

Mr. Overby called attention to a resolution which the US Delegation had been authorized to present on the above subject. He said that Secretary Humphrey, after reading the resolution, thought it rather meaningless and that he himself did not intend to introduce it unless the group should decide otherwise. Mr. Anderson indicated that it was his view that the resolution should be introduced. Mr. Holland took a similar position and indicated that he would be glad to participate along with Mr. Overby in a discussion of the subject in Rio with Secretary Humphrey. It was agreed that Mr. Overby would telephone Mr. Willis from Rio, after discussion with Mr. Humphrey, before the closing time for submitting if the resolution is to be submitted.

10. *Resolutions and Statements on Tourism and Transportation*

Mr. Anderson indicated that he intended to authorize the transmission of our resolutions [15] on tourism and transportation to the Secretary of the conference this afternoon and to make statements [16] on the subject at the meeting of the subcommittee on transportation this afternoon.

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[13] Not found in Department of State files.

[14] Draft resolutions concerning taxation and tax treaties were submitted to the conference by various delegations. After considerable discussion of the subject, Resolution 69/54 was approved; for text, see *USDel Report: Quitandinha*, p. 68.

[15] No drafts of these resolutions are printed.

[16] For text, see *USDel Report: Quitandinha*, Appendix 10.

11. *Colombian Resolution*[17] *Regarding Consultation and Cooperation Among Central Banks*

Mr. Overby called attention to the above mentioned resolution. Mr. Willis pointed out that the Federal Reserve System would probably not wish the US Delegation to agree to the consultation among Central Banks envisioned under the first paragraph of the operative part of the resolution. Mr. Overby called attention to the fact that the matter dealt with in the second operative paragraph of the resolution is one that should be handled directly between the International Monetary Fund and member countries.

Mr. Anderson called attention to Article 27 of the Charter of the Organization of American States[18] which provides that:

> "If the economy of an American State is affected by serious conditions that cannot be satisfactorily remedied by its own unaided effort, such State may place its economic problems before the Inter-American Economic and Social Council to seek throught consultation the most appropriate solution for such problems."

He then pointed out that we might suggest to the conference that this article provides a means whereby the governments which choose to do so may ask for consideration of their exchange problems. It was Mr. Willis' view that the Federal Reserve System would not wish us to take such a position. Mr. Holland pointed out that this article is contained in a treaty which had been approved by the Senate of the United States and that it is, therefore, our obligation to respect it.

Mr. Holland then suggested that we abstain on the resolution, if it is brought to a vote and point out the possibility that the problem might be met under Article 27 of the Charter. Following further discussion, he suggested that the Treasury representatives develop a definitive position for consideration at tomorrow morning's meeting. Mr. Overby stated that he thought that this might be somewhat early since it was his opinion that the views of the Federal Reserve System authorities should be sought before we take a final position.[19]

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[17] A copy of the draft resolution as submitted to the conference by the Colombian Delegation is in Conference files, lot 59 D 95, CF 406. It was adopted, with certain modifications, as Resolution 66/54; for text, see *USDel Report: Quitandinha*, p. 64.

[18] For text of the Charter, signed at Bogotá, Apr. 30, 1948, and entered into force for the United States, Dec. 13, 1951, see TIAS No. 2361, or *United States Treaties and Other International Agreements* (UST), vol. 2 (pt. 2), p. 2394.

[19] The United States abstained on Resolution 66/54; for text of the abstention statement, see *USDel Report: Quitandinha*, Appendix 14.

OAS files, lot 60 D 665, "Memorandums of meetings"

Memorandum of a Meeting of Certain Members of the United States Delegation [1]

CONFIDENTIAL [QUITANDINHA,] November 30, 1954.

Participants: Mr. Hoover
Mr. Holland
Mr. Overby
Mr. Waugh
Mr. Edgerton
Mr. FitzGerald
Mr. Parker [2]
Mr. Cale

The following subjects were discussed:

1. *Sales of Agricultural Products to Latin American Countries Under PL 480*

Mr. Holland indicated that he favored providing Brazil with 250,000 tons of wheat this fiscal year under PL 480 with no definite commitment as to the amount for future years. Dr. FitzGerald indicated that since we are thinking in terms of 400,000 tons of wheat for Brazil during the next calendar year, he would be in favor of discussing this figure with the Brazilians. Mr. Waugh spoke in favor of the 250,000 ton figure and Dr. FitzGerald said he would not press his position. It was the sense of the group that an effort should be made to settle as many as possible of the PL 480 programs for the Latin American countries during the course of this Conference. It was agreed that there would be a meeting at 11:00 a.m.[3] on the matter and that at this meeting an attempt would be made to come to some definite decisions.

2. *Financing Economic Development*

Mr. Overby stated that he had gotten the impression from conversations with Latin American representatives that their reaction to the statement [4] which he had made yesterday morning had been favorable. Other members of the group indicated that they had received a similar impression from their conversations.

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[1] Drafted by Mr. Cale.

[2] Jameson Parker, News Division, Department of State.

[3] No record of the referenced meeting was found in Department of State files.

[4] Apparent reference to the statement made by Mr. Overby in Subcommittee B (Financing) of Committee II (Economic Development) on Nov. 29 and released to the press on the same date indicating why the United States must abstain on the resolution concerning a regional financing institution.

Mr. Overby then referred to the working group redraft [5] of Resolution 1 of the ECLA Secretariat.[6] He stated that he had indicated provisional approval of the redraft subject to being able to check it in its English version, that version at this time not being available, and subject to confirmation by his Delegation. Following the reading of the redraft, Mr. Hoover asked if there were any objections. There being none, it was agreed that Mr. Overby would confirm his approval.

Mr. Overby then read the working group's redraft [5] of Recommendation 2 of the ECLA Secretariat [7] which he had also provisionally accepted. There being no objection to this by the members of the group, Mr. Hoover indicated that Mr. Overby should go ahead and confirm his provisional acceptance of the resolution.

Mr. Overby next referred to the Ecuadoran resolution [8] which would have provided special preference for the Latin American countries in investment designed to encourage the production of primary products. Mr. Overby indicated that he was thinking of proposing that this be changed to indicate that careful consideration should be given to the effects on the Latin American countries of investments made in other foreign countries for the production of primary products produced in Latin America. He also stated that he thought that the resolution should be drafted in such a way as to refer to public investment.

Dr. FitzGerald asked about the possible reaction back home to a statement that might be interpreted as meaning that we would favor investment in raw material production abroad as compared with such investment in the United States. Mr. Cale inquired whether what was contemplated in the Ecuadoran resolution did not relate solely to foreign investment e.g. by the United States without any implication of a preference or special consideration for investment in the Latin American countries as compared with investment in the United States. He suggested that the resolution might be drafted to refer to foreign investment only. Mr. Hoover suggested that Mr. Overby ask that this be done.

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[5] Not printed.

[6] Reference is to the recommendation titled "The Foreign Investment Target in Latin America," contained on p. 129 in the report prepared by the United Nations Economic Commission for Latin America (ECLA) for submission to the Rio Economic Conference; for text of the report, see *International Cooperation in a Latin American Development Policy* (New York, 1954). ECLA Recommendation 1 became the basis for Resolution 64/54, titled "Increase in Foreign Investments in Latin America," subsequently adopted by the conference; for text of the resolution, see *USDel Report: Quitandinha*, p. 62.

[7] For text of the recommendation, titled "Participation of International Credit Institutions in Achieving the Investment Target," see *International Cooperation in a Latin American Development Policy*, pp. 129–131. ECLA Recommendation 2 became the basis for Resolution 63/54, titled "Participation of International Credit Institutions in the Promotion of Economic Development in Latin America," subsequently adopted by the conference; for text of the resolution, see *USDel Report: Quitandinha*, pp. 60–61.

[8] The original draft of the referenced resolution was revised as a result of joint consultation between Ecuador, Chile, and the United States; documentation concerning the process of revision is in Conference files, lot 59 D 95, CF 406 and 411. The revised version was approved by the conference as Resolution 65/54; for text, see *USDel Report: Quitandinha*, p. 63.

Mr. Holland stated that the only thing that would give him concern regarding the resolution, with the changes that had been suggested, was not the language itself but its implications. He then inquired whether there was any chance of phrasing the resolution in universal terms so that it would provide that in making public foreign investment to encourage the production of raw materials, consideration should be given to "traditional sources of supply and marketing arrangements". He suggested that an attempt be made by Mr. Overby first to get approval of general language along these lines and that if this could not be done that he recede to the position which would provide that careful attention would be given to the effect on Latin American countries of public foreign investment in other foreign countries to increase the production of primary products which the Latin American countries produce.

Mr. Overby next referred to the working group redraft [9] of the Colombian resolution proposing consultation of central banks on temporary exchange difficulties and on the modification of IMF quotas. There was general agreement with his view that we could not approve the resolution in this form. Mr. Holland suggested that what is needed was a "warm abstention" based on our position that the resolution constitutes an invasion into the sphere of activities of international organizations of which we and most of the Latin American countries are all members.

3. *Future Economic Conferences*

Mr. Holland pointed out that there are certain representatives at this conference who favor the adoption of a resolution to hold meetings similar to the one in which we are now engaged every year. Others favor holding such meetings every two years. He also pointed out that there has long been a commitment to hold an economic conference in Argentina. He then suggested that we might try to avoid committing ourselves to any fixed schedule so far as future conferences are concerned by agreeing to a conference in Buenos Aires in 1956. This line of action was approved.

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[9] Not printed.

365/12-154: Telegram

The Acting Chairman of the United States Delegation (Hoover) [1] *to the Secretary of State*

SECRET NIACT QUITANDINHA, December 1, 1954.

Secun 6. For the Secretary. Progress at Rio conference continues favorable.[2] Comment on US policies by majority Latin American delegations stresses particularly our cooperative and sympathetic approach to their problems. As we come to closing days of meeting, atmosphere is friendly, appreciative of our position, and has definitely improved throughout conference. We are fully aware of critical situations in Chile and Brazil, as outlined by Stassen at OCB, and have explored problems in detail with respective Finance Ministers.[3] I believe imperative we assure these Ministers, while we are all in Rio, we immediately prepared to negotiate terms for sale of wheat (and possibly other commodities) under PL 480. We have in mind 250,000 tons wheat to Brazil and 50,000 to 100,000 tons wheat plus edible oils to Chile for balance fiscal year 1955.

Discussions this problem have been going within USDel throughout past week, but FOA and Agriculture representatives have raised technical objections to proposed approach by State, citing numerous difficulties [4] which may arise in negotiations pursuant to PL 480.

Notwithstanding above objections, I believe situation sufficiently critical that we are justified in giving general assurances at once, stating clearly problems inherent in PL 480, and getting detailed negotiations underway immediately.

Holland and Department staff in full agreement and believe immediate action necessary.

Ambassador Kemper and Embassy staff concur regarding Brazilian situation, and cables from Ambassador Beaulac indicate strong concurrence Santiago. Secretary Humphrey gave approval before his departure from Rio.

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[1] Under Secretary Hoover became Acting Chairman of the U.S. Delegation upon the departure of Secretary Humphrey from Quitandinha on Nov. 26, 1954.

[2] In telegram Secun 4, from Quitandinha, dated Nov. 29, 1954, reporting on the situation at the end of the first full week of the conference for Secretary Dulles and Secretary Humphrey, Mr. Hoover stated in part that "As a result of committee sessions of past week, supplemented by private discussions with virtually all delegations, I am more than ever convinced of inherent soundness of United States policy on major points". He further commented that on certain issues, including the "more radical recommendations of the UN ECLA report, we will undoubtedly have to register sole abstention, rather than seriously compromise our principles in an effort to reach unanimity." (365/11-2954)

[3] Records of discussions held by Mr. Humphrey and Mr. Hoover with heads of the Latin American delegations are contained in Conference files, lot 59 D 95, CF 411A and OAS files, lot 60 D 665, "Bilateral Talks".

[4] In telegram 53, from Quitandinha, dated Dec. 1, 1954, addressed "eyes only" to Mr. Stassen, Mr. FitzGerald recommended that before final action was taken on the proposed Brazilian and Chilean programs under PL 480, the United States should resolve questions such as those pertaining to the use of local currency proceeds and the exchange rates at which the local currency price of the commodities would be calculated. (365/12-154)

Would appreciate your approval by telephone or cable this afternoon.

HOOVER

365/12-154 Telegram

The Secretary of State to the Acting Chairman of the United States Delegation (Hoover) [1]

SECRET NIACT WASHINGTON, December 1, 1954.

Unsec 23. For Hoover from Secretary reur Secun 6. Assume you envisage Title one and not grant under Title two relating to famine conditions. On this assumption you could give indications of action for Brazil in terms of about $10,000,000 and Chile of about $6,000,000. If you advise emergency conditions exist in Chile, we would endeavor to get some very quick shipments there.

The larger figures you have in mind raise very serious and complicated problems involving Francis Committee [2] and several Departments and while I feel confident the President and all concerned will want to react sympathetically to your recommendations, nevertheless I doubt very much whether any high hopes for additional amounts should be raised pending your return and exploration of situation with other agencies.

DULLES

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[1] Drafted by Secretary Dulles.

[2] Reference is to the Interagency Committee on Agricultural Surplus Disposal (commonly called the Francis Committee after its Chairman, Clarence Francis), established by President Eisenhower on Sept. 9, 1954. For additional documentation relating to the work of the committee, see volume I.

Eisenhower Library, papers as President, Whitman file

Minutes of a Cabinet Meeting, Held at the White House, 10:45 a.m., December 3, 1954 [1]

CONFIDENTIAL

The following were present:

President Eisenhower

Vice President Nixon
Sec. Dulles
Sec. Humphrey
Sec. Wilson
Mr. Brownell
Mr. Summerfield, and
  Asst. PMG Eugene J. Lyons, in part
Sec. McKay
Sec. Benson
Sec. Weeks
Sec. Mitchell
Sec. Hobby
Director Hughes
Gov. Stassen
Dr. Flemming
Chairman Young, and Mr. Sorenson [2]
  of CSC, in part
Dr. Burns [3]
Gov. Adams
Gen. Persons
Mr. Shanley, in part
Gen. Cutler, in part
Dr. Hauge, in part
Mr. Morgan,[4] in part
Mr. Martin,[5] in part

[Here follows discussion of matters unrelated to the Rio Economic Conference.]

Rio de Janeiro Conference—Sec. Humphrey reported briefly on the Rio Conference. He pointed out particularly for the benefit of Cabinet members who might have to face the question that the US effort got off to a bad start by virtue of rumors that the Administration was seriously divided on being generous or restrictive, and by the extremist opinions expressed by Rep. Fulton and Sen. Smathers.[6] He believed that the situation had been corrected before the end of the Conference and that the agreements reached would be satisfactory to the Latin American countries.

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[1] These minutes were signed by Mr. Minnich.

[2] William F. Sorensen, Jr., Special Assistant.

[3] Arthur F. Burns, Chairman, Council of Economic Advisers.

[4] Gerald D. Morgan, Administrative Assistant to the President.

[5] I. Jack Martin, Administrative Assistant to the President.

The President inquired as to Latin American attitudes vis-à-vis Asia. Sec. Humphrey believed great jealousy would develop if the United States entered into lavish schemes in the rest of the world. The President asked as to the meaning of "lavish" and went on to emphasize that the United States had certain interests to protect in Asia and that protection of them would also serve the interests of Latin America. He believed the Joe Dodge organization[7] being set up could serve to keep a watchful eye on this situation. Sec. Wilson suggested, and Sec. Humphrey agreed, that the situation might well be saved by tying any economic program on to military aid programs, of which the Latin American countries were not jealous.

Sec. Humphrey also pointed out that the proposal made by representatives of the United Nations Economic and Social Council for Latin America were overly extensive and most upsetting to satisfactory progress of the conference.

The President emphasized the need for partnership which could never be obtained merely by making outright grants. He believed that there could be considerable accomplishment derived from smaller private meetings with foreign leaders for the purpose of encouraging the flow of private capital.

[Here follows additional discussion of matters unrelated to the Rio Economic Conference.]

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[6] Reference is to Senator George A. Smathers (D.-Fla.), Special Congressional Adviser to the U.S. Delegation, and Representative James G. Fulton (R.-Pa.), an observer at Quitandinha for the House Foreign Affairs Committee. In a press conference on Nov. 25, 1954, Representative Fulton, supported by Senator Smathers, criticized U.S. economic policy developed for the Rio Economic Conference as inadequate to meet the needs of the Latin American countries. Documentation relating to the incident is in file 365.

[7] Reference is to the Council on Foreign Economic Policy, established on Dec. 11, 1954, under the chairmanship of Joseph M. Dodge. For pertinent documentation see volume I.

Editorial Note

Forty-eight resolutions were adopted by the Rio Economic Conference. The United States voted in favor of 40 and abstained on 8 (Resolutions numbered 25/54, 32/54, 36/54, 37/54, 45/54, 48/54, 62/54, and 66/54). For text of the statements of abstention made by the United States Delegation, see *USDel Report: Quitandinha,* Appendices 11, 15, 7-9, 12-14, respectively.

UNITED STATES POLICY REGARDING POLITICAL DEVELOPMENTS IN THE CENTRAL AMERICAN AREA[1]

720.001/9–452

Memorandum by the Officer in Charge of Central America and Panama Affairs (Siracusa) to the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)

SECRET [WASHINGTON,] September 4, 1952.

Subject: Indications of Apprehension Over Communism in the Middle American Area.

In addition to previous thoughts I have brought to your attention about a growing awareness in Central America of the threat of communist penetration from Guatemala, I want to point out the following related matter:

You will recall that in a recent memorandum I informed you that our Embassy in Nicaragua reported a belief in Nicaragua that Somoza, while in the Dominican Republic, would attempt to negotiate some form of a Middle American anti-communist alliance. A certain degree of substantiation of this report came from El Salvador when the Chief of Protocol indicated that he had been assigned to the Salvadoran Delegation to the Dominican Republic because of President Osorio's belief that something of this nature, an anti-communist bloc, might be in the making.

Also as you will recall, Foreign Minister Canessa advised Ambassador Duke of the plan of El Salvador, Nicaragua, Venezuela and Panama to help finance the Echandi campaign in Costa Rica in opposition to Jose Figueres. The amount of money being spent by Echandi for newspaper ads alone certainly seems to suggest that he has adequate funds available to cover the costs of his protracted campaign.

More recently a despatch from Venezuela spoke of such an anti-communist bloc and also of the related intent to defeat Figueres.

In a despatch received from Costa Rica, No. 210 of August 28,[2] some information is given as to the purpose of the Colombian Mission to Central America headed by Eduardo Zuleta Angel. The Embassy comments that through a completely reliable source it has learned with Dr. Zuleta's permission that his real purpose of visiting these countries is the preoccupation of his government and of the Government of Venezuela with the activities of the communists and other political exile groups such as the Accion Democratica in this area. In Costa Rica he said he was particularly worried about the activities of Figueres and Betancourt. He also said that just as the communists around the world worked and organized together, his mission, at the personal request of President Urdaneta, "was to sound out the free governments of the Caribbean area to see if they could not also organize against communism and against revolutionary activities in this area which the communists support and foment openly or under cover."

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[1] For previous documentation related to this subject, see *Foreign Relations*, 1951, vol. II, pp. 970 ff.

[2] Despatch 210 from San José, not printed, stated that the Colombian mission visited other Central American countries ostensibly to work out an agreement to regulate the flow of coffee to the American market (720.00/8–2852).

Piecing the articles together from our various sources of information, it would seem that something definitely is under way in the area which is primarily concerned with the threat of communism and with doing something about people such as Figueres and the various politically exiled groups which may be used by the communists.

720.00/2–2053

Memorandum of Conversation, by the Officer in Charge of North and West Coast Affairs (Bernbaum)

SECRET [WASHINGTON,] March 20, 1953.

Subject: Political Situation in the Caribbean Area and in Latin America as a whole

Participants: Dr. Eduardo Zuleta Angel, ex-Colombian Ambassador to Washington
ARA—Mr. Mann
OSA—Mr. Bernbaum

Dr. Zuleta Angel described at great length a one-hour conversation he had held with General Bedell Smith.[1] He was delighted with the results of the conversation, and expressed the opinion that General Smith had a most unusual grasp of the Latin American scene. Zuleta Angel stated he had expressed the opinion to General Smith that the economic development of Latin America was one of the more important problems facing the United States foreign policy. He felt that this might best be achieved by cooperation rather than unilateral action by the United States. An effective means of assuring such cooperation would be Congressional authorization for the Department to negotiate bilateral pacts providing for the elimination of double taxation—that is, the exemption from U.S. taxes of the profits of American firms operating in Latin America. He expressed the opinion that the implementation of such a policy would result in the signature of bilateral tax agreements with all Latin American countries within two years.

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[1] No record of this conversation was found in Department of State files.

Dr. Zuleta Angel also described to General Smith the anxiety of Colombia and other Caribbean countries over the Communist problem in Latin America. He expressed particular apprehension of Guatemala which was described as a Soviet test of United States reaction to Communist penetration of the Western Hemisphere. Communist success in Guatemala would be followed by attempts in other countries to the point where Communism might acquire an extensive foothold in the Western Hemisphere from which it might be dislodged only with difficulty.

He then described the unsatisfactory situation which might prevail at the next Inter-American Congress to be held at Caracas[2] at the end of this year. Among the countries represented, the U.S. would be able to count only upon nine of the ten countries in the Caribbean area, Guatemala being the exception. The Argentine and its "growing number of satellites" could be expected to make trouble. Brazil also could not be counted upon for any great assistance. (No mention was made of Peru and Ecuador.) This, he stated, emphasized the need for solidifying the hard core of U.S. support in the Caribbean area by eliminating the Guatemalan cancer of Communism.

Zuleta Angel then confidentially and "off-the-record" stated that the Caribbean countries themselves were on the verge of taking matters into their own hands. Colonel Castillo Amaya [*Armas?*], the Guatemalan revolutionary, and ex-Costa Rican president Calderon Guardia[3] had departed from Miami only this afternoon for the Dominican Republic, presumably to consult with General Trujillo. They expected to be in Washington within four or five days to report on operational plans. Although Guatemala was naturally the primary target, Costa Rica had also to be taken into consideration because of the Communist menace represented by Figueres. Zuleta Angel said that Castillo Amaya enjoyed the complete confidence of Colonel Perez Jimenez of Venezuela and could count upon the support of the Colombian Government, Colonel Remon, General Somoza, Lt. Col. Osorio,

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[2] Reference is to the Tenth Inter-American Conference held in Caracas, Mar. 1–28, 1954. For documentation, see pp. 264 ff.

[3] Former President of Costa Rica.

General Trujillo and Colonel Batista. He repeated these names a few times. Castillo Amaya was described as an unusually effective person who could be counted upon to do a good job and who enjoyed everybody's confidence. Calderon Guardia was stated to be completely in accord with Castillo Amaya with the objective of insuring that Figueres would not become the President of Costa Rica. Calderon Guardia allegedly had no personal ambition to become President.

Zuleta Angel described the Guatemalan Army as being very well trained. He stated that President Arbenz' position had been solidified by the placement in strategic positions of 32 young officers who owed everything to him and who could be counted upon to be loyal to him. This situation however, had contributed to a wide-spread feeling of resentment against the Government among the officers who felt that they had been discriminated against. This was described as an important element of weakness for President Arbenz. Zuleta Angel also expressed the opinion that the hold of the Government over the Guatemalan people was shaky. He stated that most of the upper and middle class elements in the country hated the Government fiercely and were willing to do anything to unseat it. Although the Government had gained some support from agrarian reform, it could not count greatly upon effective support from the peasants who were generally peaceful and passive. Government support outside the Army was, therefore, largely concentrated in the cities. Zuleta Angel was greatly encouraged by the fact that even in the city of Guatemala which represented the Government's stronghold, it had been possible to defeat one of the Communist candidates in recent elections.

He expressed some apprehension over Mexican reaction to an attempt to overthrow the Guatemalan Government. He stated that although the Mexican Government itself would presumably not take a hand in the matter, there were many influential Army men dating back to the days of President Cardenas who had strong bonds of sympathy with the Guatemalan Army. In view of the looseness of Mexican Government control over the Army, it was entirely possible that some such units might intervene in a conflict involving Guatemala. Zuleta Angel then jokingly remarked that it was always possible in non-interventionist Mexico to buy arms for revolutionary purposes. Although arms purchased for leftist movements were very rarely interfered with, rightist purchasers of arms often found that they had run afoul of Mexican law.

Dr. Zuleta Angel stated, upon leaving, that he would keep Mr. Mann informed of developments.

713.00/5-1253

Memorandum of Conversation, by John L. Ohmans of the Office of Middle American Afairs

CONFIDENTIAL [WASHINGTON,] May 12, 1953.

Subject: ODECA[1]

Participants: Sr. Don Guillermo Sevilla-Sacasa, Ambassador of Nicaragua
Mr. John M. Cabot, Assistant Secretary for Inter-American Affairs
Mr. John L. Ohmans, Nicaraguan Desk Officer

After the usual pleasant preliminaries and reference to Mr. Cabot's recent visit to Nicaragua, the Ambassador launched into a discussion of ODECA developments. He said Nicaragua was considering calling a meeting of the Central American Foreign Ministers (except Guatemala) in Managua as soon as possible. Since Guatemala had been noncommittal in its reply to Costa Rica's invitation to rejoin ODECA, he felt that the other ODECA nations should meet to show Guatemala that the Organization could continue without it.

The Ambassador spoke in general terms about a strong, denunciatory "Declaration of Managua" which would outline the policies of the Central American countries against the menace of communism. However, it was apparent that the Ambassador was not optimistic about the possibility of getting Costa Rica to agree to any clear and strong statement against communism inferentially directed at Guatemala.

Mr. Cabot wanted the Ambassador to know that the U.S. was very deeply concerned about the spread of communism in Latin America, especially in Guatemala. He emphasized the importance of having any action against communism clearly based upon proof of the communist actions of Guatemala which represent a danger to the internal affairs of the other countries.

Ambassador Sevilla-Sacasa recognized that proof would be necessary in order to justify any measures taken by the other countries against Guatemala. However, in his view, it would be perfectly proper and sound for the Foreign Ministers to make a declaration of policy in general against communism without making a specific reference to Guatemala. Meanwhile, the countries were working to document their case against Guatemala.

Mr. Cabot declined to comment directly on the Ambassador's question as to his reaction to such a meeting in Managua. He told the

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[1] The Organization of Central American States (ODECA) was established by the Governments of El Salvador, Costa Rica, Guatemala, Nicaragua, and Honduras on Oct. 14, 1951 for the purpose of maintaining mutually friendly relations and cooperating to solve common problems.

Ambassador that, naturally, the United States would not wish to intervene in any matter of direct political concern to the Central American nations, but he assured him that the U.S. was very interested in ways of combatting communism in the area. Mr. Cabot added the U.S. could not advise the countries as to what steps they should take to act against Guatemala. The Ambassador said he expected and understood Mr. Cabot's reply.

The Ambassador agreed that Nicaragua could not and should not intervene in the internal affairs of Guatemala. However, he said that he understood there were many Guatemalan exiles outside of Guatemala who were anxious to return to Guatemala to change the state of affairs within the country. He observed that equally so, it would be intervention for any of the countries to interfere with the actions of those exiles who were anxious to bring about such a change within Guatemala, he added.

The Ambassador concluded by saying that he was leaving on May 12 for New York to take the *Queen Mary* to England to attend the Coronation ceremonies. He plans to be back in Washington on June 9.

613.14/5–554

Memorandum by the Officer in Charge of Central America and Panama Affairs (Leddy) to the Assistant Secretary of State for Inter-American Affairs (Holland)

SECRET [WASHINGTON,] May 5, 1954.

Subject: Assurances to Central American Governments of United States Support in Event of Attack from Guatemala

Responsive to Mr. Jamison's suggestion for review of the Department's action in 1953, in assuring certain Central American Governments of United States support in event of attack from Guatemala, the following is set forth.

In February 1953, the Government of El Salvador sent to Washington a special mission, composed of the Minister of Commerce (Dr. Jorge Sol), the Minister of Labor (Dr. Mario Salazar), and the Chief of Staff (Colonel Molina); the mission came to solicit the urgent assistance of the United States Government in procurement of arms, to defend El Salvador against an attack from Guatemala, which the Salvadoran Government then considered imminent. Since the arms and equipment desired were estimated to cost in excess of $2,000,000, which the mission regarded as too costly, it was suggested to the mission that some facility in acquisition could be obtained by entering into a military assistance agreement with the United States. The Salvadorans were reluctant to consider this agreement, which they stated would be unpopular politically at home and would expose El Salvador to the danger of Guatemalan reprisal before any arms and equipment to be delivered under the agreement could be received. Thereupon, the visiting mission and the Salvadoran Ambassador, Dr. Castro, were assured by Assistant Secretary Cabot that the United States Government would, by promptly honoring its commitments under the Rio Treaty and the OAS and UN Charters, safeguard El Salvador by coming immediately to its defense in the event of Guatemalan attack. Since the Salvadoran mission did not accept this assurance as sufficient (Colonel Molina said "our dishes will be broken in a few minutes and you could not come for at least 24 hours"), Mr. Cabot spoke directly with the President and Foreign Minister of the Salvadoran Government, during his visit in April 1953.[1] He repeated the assurances previously given with reference to our commitments under the Rio Treaty and the OAS and UN Charters.

Further, in April 1953, the Governments of four Central American countries (El Salvador, Honduras, Nicaragua, and Costa Rica) were uncertain as to whether or not to continue the Organization of Central American States, after Guatemala's withdrawal on April 1; and the Department acted to assure these Governments of our friendly interest, and support of the purposes of ODECA, through direct statements to this effect by our four Ambassadors to the respective Presidents or Foreign Ministers; Acting Assistant Secretary Mann spoke in the same sense to the respective Ambassadors of these four countries in Washington. The lukewarm attitude of Honduras toward ODECA was based on fear of Guatemala's greater military power, and the opportunity was therefore taken by Mr. Mann to assure the Honduran Ambassador in the same sense that Mr. Cabot had spoken with the Salvadorans.

These assurances were, in both cases, oral and informal, and referred to defense against aggression in the form of an armed attack by Guatemalan military forces.[2]

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[1] Assistant Secretary Cabot visited a number of countries in Latin America from Apr. 6 to May 3, 1953; pertinent documents are in file 110.15 CA.

[2] For further documentation on U.S. concern over the Guatemalan threat to Central America, see pp. 1027 ff.

Editorial Note

During the months of May and June, 1954, while events in Guatemala absorbed the attention of the United States and most other Central American countries, an abortive attempt to assassinate President Somoza of Nicaragua on April 4, 1954, created another source of tension in the region. Evidence accumulated by President Somoza indicated that the conspirators had been launched from Costa Rica with the possible complicity of leading Costa Rican officials, including President Figueres. For further documentation on the circumstances surrounding the assassination attempt, see pages 1378 ff.

618.31/7–954: Telegram

The Chargé in Venezuela (Bernbaum) to the Department of State

SECRET PRIORITY CARACAS, July 9, 1954—9 p.m.

11. For Holland. Saw Otanez and Estrada separately after your call.[1] Although denying Venezuelan participation any plans attack Costa Rica, both flatly refused consider doing anything to protect Figueres. Otanez conceded after lengthy discussion that Department's intentions laudable and beyond reproach but insisted that Figueres' conciliatory attitude based only on fear reprisals and would change with elimination danger.

Estrada went further with allegation Figueres still tolerating continued aid plans for uprising in Venezuela and assassination President.

Both discounted importance Betancourt departure Costa Rica as inevitable due internal political situation but felt it could be constructive if future host country could be relied upon to check continued subversive plotting. They definitely felt United States not such a country and that his admission therein would reinforce growing resentment in Venezuelan and other Caribbean countries against United States efforts protect Costa Rica and readiness to build up Betancourt prestige. Although Otanez amenable Betancourt admission on basis reliable guarantees against political activities and declarations, Estrada stated definitely even this unacceptable and certain convince Perez Jimenez that US willfully irritating Venezuela. He queried whether Betancourt important enough to US to risk Venezuelan friendship.

Both unimpressed by our apprehension attack on Costa Rica could lead to serious damage inter-American system. Otanez observed it might be healthy bring differences out into the open even if that should involve division American Republics into two camps. He felt this would have virtue of reinforcing the bonds linking the anti-Communist countries as against the theoretical and tenuous unit now existing. He warned in a friendly manner that our insistence upon protecting Costa Rica even in the name of hemisphere unity could result in serious damage relations with our real friends. He observed that in such case the US would find that it could no longer count upon them in future emergencies such as the one involving Guatemala. Estrada was even more outspoken regarding the strain being placed on our relations with most Caribbean countries with which he was in daily contact. He spoke at length about the President's resentment over the Department's appeal to Gonzalez and other Ambassadors help protect Costa Rica. He felt this implied belief complicity their countries in "non-existent" invasion plots.

Estrada then smilingly expressed the firm conviction that Somoza was far too clever to invade Costa Rica. He repeated this a few times as well as the statement that Figueres was fortunate in not bordering on Venezuela. He referred to the possibility of an uprising by the "enraged" Costa Rican populace, expressed the hope that this would take place and stated that he would be careful not to let us know if he knew it were going to take place. He also repeated the threat of instant retaliation at first sign Costa Rican-based attack against Venezuela.

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[1] No record of this conversation was found in Department of State files. Pedro Estrada Albornoz was Chief of National Security from August 1951.

It is difficult to appraise the extent to which our representatives here and in Washington will influence Venezuelan plans for Costa Rica. Present indications are that a Nicaraguan-based "internal" coup may be in the making with Venezuelan moral or financial support. It is also depressingly clear that our relations with the top level of Venezuelan Government have deteriorated badly. It would appear desirable to prevent further deterioration by arranging for a destination other than the US for Betancourt. Gonzalez arriving July 11 for consultation.

BERNBAUM

618.31/7-954:Telegram

The Secretary of State to the Embassy in Venezuela[1]

SECRET WASHINGTON, July 10, 1954—5:41 p. m.

19. Re Embtel no. 11,[2] Department working to eliminate number miscellaneous exiles generally believed to be intriguing in Costa Rica. Feels this can be accomplished and, if so, much of resentment against Costa Rican Government in other Latin American countries will disappear. Department's "protection" of Costa Rica implies no approval presence there of these elements. However, Department satisified that a new revolution in Central America at this time would create grave problems in UNSC where several usually cooperative states would accept Russian argument that OAS incapable of maintaining order this hemisphere. Therefore, Department favors maintenance peace in area and continuance efforts eliminate controversial figures. Department has satisfactory assurances Somoza on this subject.

Out of deference views of Venezuelan Government Department decided weeks ago not permit Betancourt establish residence here. Understand his plans now transit US and establish new residence in southern portion South America.

Gonzalez thoroughly familiar Department's foregoing views.

DULLES

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[1] Drafted and approved by Mr. Holland and repeated for information to San Jose and Managua.

[2] *Supra.*

618.31/7–2254

Memorandum by the Director of the Office of South American Affairs (Atwood) and the Deputy Director of the Office of Middle American Affairs (Neal) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

SECRET [WASHINGTON,] July 22, 1954.

Subject: Relations between Venezuela, Costa Rica, and Nicaragua.

In general the problem is one of two strong military authoritarian governments aligned against a government now headed by a liberal, but anti-communist, internationalist with a hate for "dictators." The Guatemalan political situation was always of secondary importance to Venezuela at least, and now that it has been resolved, the militarist Venezuelan and Nicaraguan leaders have turned their attention and energies to the alleged danger posed by Figueres and his supporters in Costa Rica. There are also strictly bilateral complexities, which are set forth below:

Venezuela–Costa Rica

There is a firm friendship between Costa Rican President Figueres and Rómulo Betancourt, leader of the Venezuelan party from which Col. Pérez Jiménez seized power in 1948. Figueres has provided a haven for Betancourt in exile, not too far from Venezuela. Figueres has not prevented Betancourt from issuing clandestine propaganda and letters to the press attacking the Venezuelan regime and defending himself from counter-attacks. (The action, apparently by the Venezuelan Government, of dropping scurrilous leaflets by plane over San José, attacking both Betancourt and Figueres exceeded any act by either Betancourt or Figueres.)

Betancourt is believed by the Venezuelan leaders to be plotting his return to power and coordinating those plans while living in Costa Rica. The chance of assassination of Pérez Jiménez at the instigation of the Venezuelan exiles appears slight. However, the continuance of the Venezuelan Government's attempts to assassinate its own exiles abroad gives the Venezuelan officials reason to feel some concern.

Costa Rica did not attend the OAS Conference in Caracas, stating clearly its distaste for the military regime in Venezuela and criticizing

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[1] Drafted by Mr. Ohmans, and by Bainbridge C. Davis of the Office of South American Affairs. Addressed also to Deputy Assistant Secretary Woodward.

Venezuela for holding such a large number of political prisoners. Figueres (directly or through Betancourt) actively sought the support of other American Republics (particularly Uruguay, Bolivia, and Chile) to have the conference held elsewhere than in Caracas, unless Venezuela would release a substantial number of its political prisoners.

Figueres, with his Messiah complex and volatile personality, believes himself to be the man to save the repressed peoples of Latin America and has spoken out clearly against the "dictator" governments of Venezuela and Nicaragua. Such propaganda continues, though not so intensively. He is well regarded by the liberal press and by labor in the U.S.

All of the preceding is made more dangerous by Figueres' great unpredictability and his past record for plotting with his liberal friends in the hemisphere and the so-called Caribbean Legion to bring about the downfall of the dictators in the area.

Diplomatic relations between the two countries are not in effect at present. Venezuela withdrew its only representative on March 12, 1954, and Costa Rica has no representative present in Caracas.

While Estrada (Chief of the Venezuelan Seguridad Nacional and one of the most powerful men in Venezuela) continues to deny Venezuelan plans for attacking Costa Rica, it seems probable that Venezuela is giving moral, financial, and possibly technical support to a plot to overthrow Figueres. Estrada, arguing that Figueres is really a communist at heart, has said frankly that he would be careful not to inform us if he knew that a Costa Rican uprising were about to occur. At the same time he has spoken of reacting strongly if there were any indication that the Costa Ricans were even tolerating revolutionary plans against Venezuela; and he has alleged that with Figueres' help, Betancourt has assembled a mercenary army and an invasion fleet to attack Venezuela. Estrada has talked of "countering" a Costa Rican attack on Venezuela by using Canberra bombers to obliterate San José and a new Venezuelan destroyer to land 2,000 troops on Costa Rican shores, and he stated that this would mean war, regardless of the consequences for the OAS.

In view of the foregoing, Venezuela reacted strongly to the token U.S. shipment of arms to Costa Rica, since it indicated that Venezuela could not successfully treat Figueres as another Arbenz.

Nicaragua–Costa Rica

Somoza believes that Figueres was intimately involved in the April plot of Nicaraguan exiles coming from Cosa Rica to overthrow his government and assassinate him.

Nicaragua—or more properly Somoza—is concerned over the number of Nicaraguan exiles being harbored in Costa Rica.

Costa Rica recently has given indications of deporting nearly all of the exiles desired by Nicaragua.

Because of Figueres' all too public position against dictators, and specifically against Somoza, there is naturally no love lost by Somoza for Figueres.

Moreover, Somoza regards Betancourt as a danger against his own security, but admittedly not as much as does Venezuela.

Venezuela–Nicaragua

These two countries share similar views on government; they emphasize the military aspects of their national life; and stability of the present regime is considered more important than the freedom or rights of the individual.

Nicaragua, perhaps, permits more freedom of the press but not to a degree which would seriously affect the security of the regime.

Nicaragua is proud of and attempts to exploit its firm friendship with the U.S. It attempts to be more anti-communist than anyone, and many of its enemies are labeled communist for convenience, a practice Venezuela also follows. Venezuela is basically friendly toward the U.S. but is quick to show its independence, being aware of its strategic importance to us and conscious of its growing strength as a military and economic power in the Caribbean.

Both are of the rightist group of governments in the hemisphere—Dominican Republic, Cuba, Argentina, Peru.

Remedies—Action taken by the U.S. and further action required.

(a) *With Costa Rica—*

We have urged Costa Rica to get rid of the exiles in the country whom Venezuela and Nicaragua consider a menace to its security.

We have informed Costa Rica that it is not eligible for a military grant aid agreement. We approved the purchase of arms by Costa Rica. Doing that, we also told Costa Rica we felt it appropriate to encourage it to take action on its own to bring political stability to the area.

We have asked Costa Rica not to publicize further the purchase of the arms, thus to contribute to the easing of tensions in the area.

Costa Rica has indicated its willingness to deport most of the exiles considered dangerous by Nicaragua. Rómulo Betancourt may leave Costa Rica soon on his own volition and would presumably be followed by other AD exiles.

Figueres faces substantial domestic political trouble because of his international political escapades. He needs a relatively long period of stability at home to recoup his own political fortunes.

If Betancourt and the other principal AD leaders do not leave within a short period, we should continue to encourage the departure of these people and of any important Nicaraguan exiles who remain.

(b) *With Nicaragua—*

We have quite frankly told Nicaragua that we do not want it to contribute in any way to political instability in Central America. Somoza has indicated his concern over Nicaraguan exiles in Costa Rica, and once they have been deported by Costa Rica, he probably will desist from further menacing actions.

We have explained the reason for the arms shipment to Costa Rica and the fact that Costa Rica paid for all shipments.

We should observe closely Nicaragua's future actions to be certain that it continues to do its share in maintaining peaceful relations with Costa Rica.

(c) *With Venezuela—*

We have made our position regarding Costa Rica clear to Ambassador González and he appears to understand the problems but is not able to convince the President.

We have also conveyed this information to the Foreign Minister, but he seems to carry relatively little weight with the President today and merely reflects the President's annoyance with us.

We have made repeated efforts to put our position across to Estrada, as the man who carries most weight with the President, but he is intent on his own objectives and refuses to be convinced by our line of reasoning.

We should make further efforts to put the following points across clearly to Estrada and to the President:

1–Real explanation of the agreement between the United Fruit Company and Costa Rica is (*a*) Figueres had a very generous proposition to accept or reject; (*b*) Figueres was worried about possible foreign attack or internal revolution and wanted a quick settlement of United Fruit Company problem; (*c*) the U.S. did not take any part in these negotiations.

2–Figueres is now badly worried about internal revolution. He scarcely has arms to handle this, to say nothing of attack against another country. Costa Rica has no offensive weapons (which Venezuela does have) and no trained men to speak of. Figueres knows from experience that he could not mount an attack against another country, since he would have neither the armed forces nor the support of his people for such an attack. (The Venezuelan Government's alleged fear of Betancourt's ability to overthrow it must be appraised in the light of repeated evaluations by our own Embassy as well as by Pérez Jiménez and Estrada themselves of their own strength and stability.)

3–In the event of an armed attack by any *State* on Costa Rica, the U.S. would be obligated, as would *all* parties to the Rio Treaty, to go immediately to the assistance of Costa Rica (Article 3 of the Rio Treaty). In the event of an external challenge to Costa Rica's security, not an armed attack by another State, we would co-operate in the OAS action required to prevent or remove the causes of any breach of the peace. We would, likewise, live up to our obligations if Venezuela were attacked in similar manner and it requested help.

4–For each country to maintain its own economy in the strongest possible condition requires the maintenance of peace in the Western Hemisphere (Peace and stability are essential to the flow of capital needed for continuance of Venezuela's public works program and its economic development.)

5–The necessity for solidarity of non-communist nations, even of widely diverse views, makes peace and a strong inter-American system essential in the Western Hemisphere. Venezuela, as well as the U.S., has much to lose by weakening the OAS. Our mutual interests lie in conciliating inter-American difficulties rather than aggravating them.

611.13/8–1854

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)

SECRET [WASHINGTON,] August 18, 1954.

Subject: United States Policy Toward Central American Countries

Participants: The Secretary of State
Ambassador Thomas Whelan
Assistant Secretary Henry F. Holland

The Secretary told Ambassador Whelan more or less the following:

If there is a renewal of violence of any kind in Central America at this time, it will create very serious problems for the United States. During the Guatemalan crisis we insisted that the problem be handled within the OAS rather than the United Nations. We were opposed by Russia and by a strong group of our allies, including the United Kingdom, France, Australia, and Denmark. When Eden visited the United States, the Secretary met him at the airport and, coming in from the airport to the White House, told him that we were deeply concerned at the news that the United Kingdom would vote with others against the United States to name an investigating group to look into the Guatemalan crisis. He told Eden that the United States considered it imperative that he countermand instructions under which the United Kingdom Delegation was acting in the United Nations. In view of the Secretary's very firm position, Eden told his Delegate to abstain. France followed suit and, as a result, the United Nations did not take jurisdiction of the problem, and it was handled within the OAS.

If a new crisis now arises in Central America, our own allies will agree with Russia that it was a mistake to let the last problem be handled in the OAS and they will side with Russia, thus damaging the prestige of the United States and weakening the OAS.

In view of the foregoing problems, it is essential from the United States point of view that there be a period of peace and quiet in Central America. We do not insist on public displays of friendships or reconciliation, but we do feel that a return to normalcy is essential.

By following an inconsistent policy, President Somoza is forcing us into two courses of action:

1. We are finding it necessary to satisfy the urgent request of Costa Rica for arms with the result that a military force is being built up in the country adjoining him, a fact which can only prejudice Somoza's interests.
2. We find ourselves taking measures to neutralize acts of President Somoza such as sending his troops to the border, sending planes over the border, all of which acts on our part would indicate unfriendliness to him and support for Figueres.[1]

Actually, we have no particular predilection for Figueres who has often followed trouble-making policies. On the other hand, we feel and traditionally have felt that President Somoza and the Government of Nicaragua are very close to us. It, therefore, causes us considerable concern to find ourselves in a position of opposition. Nevertheless, this is our policy and will continue to be our policy. The Secretary hopes that President Somoza would understand the reasons behind our policy and would work with us.

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[1] For documentation on U.S. military planning in support of Costa Rica, see pp. 843 ff.

INR-NIE files

National Intelligence Estimate[1]

SECRET

NIE-80-54

WASHINGTON, August 24, 1954.

THE CARIBBEAN REPUBLICS[2]

THE PROBLEM

To estimate the situation and probable developments in the Caribbean republics (Cuba, Haiti, the Dominican Republic, Guatemala, El

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[1] National Intelligence Estimates (NIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of NIEs.

[2] A note on the source text indicates that the Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff participated in the preparation of this estimate. The Intelligence Advisory Committee concurred in this estimate on Aug. 24, 1954.

Salvador, Honduras, Nicaragua, Costa Rica, and Panama), with reference to their political stability and their relations with one another and with the United States.

CONCLUSIONS

1. The generally prevailing characteristics of the Caribbean republics are social immobility, economic underdevelopment, and political immaturity. The vast majority of their heterogeneous population is illiterate, poverty-stricken, and socially and politically inert. Traditionally, politics have revolved around persons rather than public issues; the continued or shifting favor of the army has been the decisive political factor; and rule by military "strong men" has been normal. The constant struggle for power has created a pattern of intrigue and conspiracy, often with international ramifications and implications, and of corresponding suspicion and repression. The transfer of political power is generally accomplished by revolution rather than by election, but really bloody civil conflicts are rare.

2. During recent years the traditional ruling elements have been faced by steadily increasing demands for social, economic, and political change, voiced by small but growing urban middle class elements with increasing popular support. The pressure for change has not been uniform throughout the area. In Guatemala, it was such as to shatter the traditional order in the Revolution of 1944. It has been less spectacularly effective in Cuba, Costa Rica, and Panama, but is only beginning to be felt in Haiti, El Salvador, and Honduras. It has been effectively contained by strongly entrenched authoritarian regimes in the Dominican Republic and Nicaragua.

3. The pressure for change will continue to grow. For the time being, however, the elements resisting change are in the ascendant. Whether eventual change is orderly will depend in large measure on whether the existing regimes can bring themselves to promote social, economic, and political progress, or whether, through static repression, they make virtually certain an eventual violent explosion. In any case, no substantial improvement in basic conditions is likely to occur for many years.

4. The overthrow of the Arbenz regime in Guatemala has removed the most immediate and dangerous threat to stability and order in the region. Elsewhere, Communist potentialities have been held reasonably well in check, though the situation is far from satisfactory in Cuba and Honduras. The strength of Communism throughout the region as measured by the number of Communists and self-conscious Communist sympathizers is small. Nevertheless, there is a real danger, growing out

of the confused and unchanneled character of the slowly rising pressure for reform, that Communists will be able (as they were in Guatemala) partially to infiltrate or to influence economic groups, reform movements, reformist regimes, and politically ambitious individuals or groups, and thus to acquire in particular countries an influence wholly disproportionate to either their numbers or the popular acceptance of their doctrines. Throughout the region the Communists will continue to make the most of plentiful opportunities for agitation.

5. The prospects for stability and order in Guatemala depend on whether the new regime can and will adhere to the broad objectives of the Revolution of 1944 while eliminating Communism. Any other policy would be likely to precipitate further internal conflict.

6. The greatest present threat to stability and order in the region is the animosity of Presidents Somoza of Nicaragua and Perez Jimenez of Venezuela toward the Figueres regime in Costa Rica. Figueres' recent more conciliatory attitude has eased the situation somewhat, but neither Somoza nor Perez Jimenez is likely to become reconciled to the continued existence of the Figueres regime.

7. The October election in Honduras may precipitate armed violence in some degree. The outcome is unpredictable. President Batista will make sure of winning the November election in Cuba.

8. With the notable exception of Guatemala under Arbenz, the Caribbean republics have recognized that they must accommodate their policies to US security interests in the Caribbean area. In return for their cooperation, however, they expect from the United States protection, toleration of their peculiar domestic political processes, and a generous attitude toward their economic problems. They rely upon the sympathy and support of other Latin American republics to safeguard them against unacceptable US interference and domination.

9. In Caribbean and in other Latin American opinion, the issue of social and political reform versus traditional authoritarianism is of greater immediate importance than the question of Communism or anti-Communism. The reformists contend that the United States has a moral obligation to foster social and political development in the area. On the other hand, the Caribbean "strong men" resent any indication of US support for reformist regimes as a betrayal of the "true friends" of the United States. It is a primary Communist objective to identify the United States as the chief support of Caribbean dictatorship and the chief obstacle to social and political progress.

10. The armed forces of the Caribbean republics exist to defend their incumbent governments against internal subversion, filibustering expeditions, and armed intervention by antagonistic neighboring regimes. In Caribbean opinion, defense against any more formidable aggression is beyond the republics' limited capabilities and sure to be

provided by the United States in its own interest. Under the concept of hemisphere defense, however, and with requisite US assistance, most of the Caribbean republics will probably maintain small units equipped and trained for modern combat and available to assist in an integrated defense of the Caribbean area.

DISCUSSION

I. *Strategic Importance*

11. The strategic importance of the Caribbean republics is a function of their proximity to the United States and the Panama Canal, to the routes between them, and to the sea and air routes between the United States and South America. It has long been a cardinal principle of US policy to ensure against a lodgment by any potentially hostile power anywhere within the Caribbean area. Conversely, US access to military base sites in the republics in case of need is a matter of considerable strategic interest. The only important existing military bases in the republics are the US installations in the Panama Canal Zone and at Guantanamo Bay in Cuba.

12. The armed forces of the Caribbean republics exist primarily for the maintenance of internal security and are not in all cases fully adequate even for that limited purpose. In the event of war, the republics could make no contribution to hemisphere defense of more than local significance.

13. The Caribbean republics supply the United States with important quantities of coffee, sugar, and bananas. They are not an important source of industrial raw materials, although small amounts of strategic minerals are obtained from Cuba.

14. The political cooperation of these nine small but sovereign states is of considerable importance to the United States in promoting the concept of hemisphere solidarity and in furthering its policies in the United Nations.

II. *Basic Conditions and Trends*

15. The Caribbean republics have not departed greatly from the colonial pattern of living: social immobility, economic underdevelopment, and political immaturity are their prevailing characteristics. The generally dominant socio-political element is the landed gentry in combination with the military and, to a varied extent, the Church. The vast majority of the population is socially and politically inert, illiterate, and poverty-stricken. Substantial segments of the population are virtually untouched by Western civilization. In recent years, however, a small but growing urban middle class has assumed increasing importance in the economic and political life of the area.

16. The 21,000,000 inhabitants of the Caribbean republics are of diverse racial stocks and admixtures (see Annex I[3]). The population is preponderantly white in Costa Rica, negro in Haiti, mulatto in Cuba and the Dominican Republic, Indian in Guatemala, and *mestizo* (mixed Indian and white) elsewhere. In every case, however, the white element has remained socially and politically dominant, except in Haiti, which is ruled by a largely mulatto elite.

17. Most of the people of the area derive their livelihood directly from the soil. Agricultural methods are generally primitive, except in the production of export crops. These crops, excepting coffee, have been developed largely by foreign enterprise. Economic development has been retarded by lack of capital and of technical skill and by the inadequacy of transportation and power facilities and of other basic services. Foreign direct private investments in the area are predominantly of US capital, including all major foreign economic enterprises.

18. Traditionally, political power has been monopolized by upper class groups related by blood, marriage, or economic interest. Even though some of the republics have a broad franchise, in none of them, except Costa Rica, is there the articulate popular participation required to give reality to democratic processes. Consequently politics have revolved around persons rather than public issues, the continued or shifting favor of the army has been the decisive political factor, and rule by military "strong men" has been normal. In an environment of such political immaturity, the constant struggle for power has created a pattern of intrigue and conspiracy, often with international ramifications and implications, and of corresponding suspicion and repression. The transfer of real political power from one group to another is generally accomplished by revolution rather than by election. Such revolutions are usually a matter of military *pronunciamiento*, with minimal public disturbance. Really bloody civil conflicts are rare.

19. During the last thirty years the traditional ruling elements in the Caribbean republics have been faced by steadily increasing demands for social, economic, and political change. These demands come, not from the peasant masses, but from urban elements: students and intellectuals, business and professional men, labor leaders, and junior army officers. These elements are motivated by their own frustrations and dissatisfactions and by a variety of foreign influences, US, Mexican, and Argentine as well as Communist. They have no common program, but all desire recognition and a share in political power. In seeking to arouse mass support, they have tended to adopt extremist doctrines and demagogic tactics.

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[3] Not printed here.

20. Throughout the area, agitation against the traditional order of society has had strong nationalistic overtones. Frequently this nationalistic sentiment has been directed against the special privileges granted in former times to foreign economic enterprises.

21. Pressure for and resistance to change have not been uniform throughout the area. In Guatemala the tranditional order was shattered by the Revolution of 1944. In Cuba, Costa Rica, and Panama pressures for change have been effective to a considerable degree. Such pressures are only beginning to be felt in El Salvador, Honduras, and Haiti. They have been effectively contained by strongly entrenched authoritarian regimes in Nicaragua and the Dominican Republic.

III. *The Existing Political Regimes*

22. *Cuba* is ruled by a military "strong man," Fulgencio Batista, who emerged from obscurity as leader of the "Sergeants' Revolt" in 1933, when he gained control of the Cuban Army. After making and breaking several presidents in succession, Batista himself assumed the presidency in 1940. He found it expedient to retire quietly at the end of his term in 1944. In 1952 he again presented himself as a candidate, but then forestalled the election by seizing power in an Army coup. He proceeded to suspend the Congress, to dissolve the existing political parties, and to promulgate a new constitution by decree. General elections under a revised electoral law, repeatedly promised, have been repeatedly postponed. They are now scheduled for November 1954, with Batista an announced candidate.

23. The stability of the Batista regime depends upon the continued support of the Army, which seems assured. In addition, Batista has some popular following, primarily among lower class elements. He is seeking to broaden his political support by an extensive public works program and by middle-of-the-road policies calculated to appeal to conservative opinion. He operates politically through a coalition of four parties, of which two are new groups organized by personal adherents and two are small old-line rightist groups led by opportunist politicians.

24. Although the Batista regime is generally unpopular, political opposition to it is disorganized and ineffectual. The only registered opposition party, that led by ex-President Grau, has recently shown that it has considerable popular support, despite its lack of a positive program, but all efforts to form a united front of the many opposition elements have failed. Because of personal rivalries, fear of repression, and a widespread belief that the election will be rigged, it is unlikely that an effective political opposition can be developed.

25. There is another opposition in exile, composed of members of the Prio administration and other politicians ousted by Batista in 1952.

It also is disorganized and ineffective. There can be no doubt that some of the exiles are plotting a countercoup, but it is unlikely that such an attempt could succeed. Nevertheless, constant rumors of an impending coup have an unsettling effect in Cuba and have kept the Cuban armed forces in a quasi-alert status for over two years.

26. *Haiti* is ruled by another military "strong man," Paul Magloire, formerly commandant of the palace guard, who ousted his predecessor by coup in 1950. He acted with the support of the predominantly mulatto elite, who could not tolerate the former president's attempt to arouse the black masses in support of his own ambition to serve an unconstitutional second term. Magloire was subsequently elected by popular vote and rules as a constitutional president. He seems to have struck a nice balance in courting popularity while keeping the populace under firm control. By legislation providing for his continued control of the armed forces after the expiration of his term as president, Magloire has already arranged to retain real power indefinitely.

27. *The Dominican Republic* is ruled by the most durable "strong man" of the Caribbean, Generalissimo Dr. Rafael Leonidas Trujillo, "Benefactor of the Fatherland." He secured command of the Dominican armed forces shortly after the withdrawal of the US military occupation in 1924 and has been in effective control of the country ever since. He occupied the presidency himself during 1930–1938 and 1942–1952, and now maintains his brother, Hector, in that office. The Dominican Republic is a one-party state and is administered, in substantial effect, as the private estate of the Trujillo family.

28. *Guatemala* is under the provisional government of a military junta headed by Carlos Castillo Armas, leader of the June 1954 revolutionary attack on the Arbenz regime, but including Elfego Monzon, representative of the regular armed forces. As a follower of Francisco Arana, Castillo participated in the Revolution of 1944 and held several responsible Army positions under the Arevalo administration, but broke with the regime when Arana was assassinated in furtherance of Arbenz' political ambitions. Monzon remained in the Army and held the post of Minister without Portfolio under Arbenz, but gained a reputation as an outspoken critic of the Communistic tendencies of the regime. Although both are hostile to Communism, Castillo and Monzon manifestly represent different factions, and circumstances may make them personal rivals. For the short term at least, the stability and effectiveness of the new regime will depend on their ability to cooperate in the national interest.

29. In the longer view, the success of the new regime in Guatemala will depend on its ability to eliminate Communism without repudiating the objectives and achievements of the Revolution of 1944. The overthrow of Arbenz has been hailed with enthusiasm in Guatemala

City, which was always strongly anti-Communist in sentiment, but the urban reformist elements there would not welcome an attempt to re-establish the traditional social and political order. In the countryside, there are both reactionaries who would like to undo the Revolution of 1944 in the name of anti-Communism and aroused agrarian workers who fear that the Castillo regime will deprive them of their recent gains. A constructive and enduring solution of Guatemala's political problems thus requires great skill and discrimination on the part of the new government.

30. The President of *El Salvador* is Oscar Osorio. In 1948, as a junior army officer, he led a coup which overthrew his dictatorial predecessor and established a liberal and progressive, but not radical, regime. He was elected constitutional president in 1950, for a six-year term.

31. The President of *Honduras* is Dr. Juan Manuel Galvez, a lawyer put in office by Tiburcio Carias, the erstwhile "strong man" of that country. Carias gained control of Honduras in 1923, when he led the Conservatives to victory over the Liberals in a civil war. For a time his position was precarious, but his demonstrated ruthlessness eventually discouraged opposition. He occupied the presidency himself from 1933 to 1949, when he voluntarily retired in favor of Dr. Galvez. The Galvez administration, however, has displeased him: Galvez presumed to act as president in fact and to permit an unprecedented degree of liberalization in Honduras. Carias has therefore presented himself as a candidate for reelection in October 1954.

32. The prospective election of 1954 has created a situation of mounting tensions and involves a possibility of civil war. A three-party contest is in progress among the Nacionalistas (supporters of Carias), the Reformistas (supporters of Galvez, whose candidate is Abraham Williams), and the Liberals (whose candidate is Dr. Ramon Villeda Morales). The political situation is fluid, however. The fact that no one party can count on being able by itself to win and secure power favors the formation of party combinations, any one of which could probably be assured a victory. An alliance between the Nacionalistas and the Liberals is not very likely. In this situation the Reformistas would appear to hold the balance of power. If the Reformistas should combine with the Nacionalistas, the resultant regime probably would be secure against Liberal opposition, even in the unlikely event that such opposition should be armed. A Reformista alliance with the Liberals would eliminate Carias politically. Carias, might be tempted to resort to arms in order to forestall such an eventuality. He might also be tempted to do so even after such an alliance had been effected, but his chances of success in such circumstances would be smaller. In any such attempt Carias would have the support of a considerable number of private

armed personal followers and probably also of at least a portion of the national army.

33. The "strong man" of *Nicaragua* is Anastasio Somoza, who was left in command of the Nicaraguan armed forces on the withdrawal of the US military occupation in 1932 and has been in effective control of the country ever since. Somoza has occupied the presidency himself since 1936, except for a brief interval (1947–1950) during which he nevertheless retained control of the armed forces.

34. In contrast to its neighbors, *Costa Rica* has a long tradition of orderly democratic government. However, the regime of President Rafael Calderon Guardia (1940–1944) and his handpicked successor, Teodoro Picado (1944–1948), was dictatorial. This regime was closely associated with President Somoza of Nicaragua, but, paradoxically, Picado was also dependent on the political support of a rapidly developing Communist movement in Costa Rica. In 1948 the regime attempted to nullify the election of Otilio Ulate, a conservative. It was promptly overthrown by a revolt led by Jose Figueres, a wealthy planter. Figueres headed a provisional government which held power for eighteen months before finally permitting Ulate to take office. In 1953, on the completion of Ulate's term, Figueres was duly elected constitutional president.

35. Figueres is the somewhat erratic leader of the young reformists in Costa Rica and a man of rather advanced socialistic ideas, but he and his administration are definitely anti-Communist. The Figueres regime is faced by an internal conservative opposition led by ex-President Ulate and an opposition in exile principally composed of elements expelled in 1948 and led by ex-President Calderon Guardia. The latter is the more dangerous inasmuch as it can count on the powerful support of Presidents Somoza of Nicaragua and Perez Jimenez of Venezuela.

36. The President of *Panama* is Jose Remon, formerly Commandant of the National Police (the only armed force), who was duly elected in 1952 for a four-year term. Remon is a self-made man and is responsive to reformist pressures, but, as a former police chief, he is also conscious of the requirements for order and security. Internal stability during his term seems assured.

IV. *Communist Strength and Influence*

37. Communist political parties are illegal in all the Caribbean republics, but Communist activities are carried on clandestinely and by a variety of front organizations. Total Communist party membership in these countries is estimated to be about 35,000, of whom some 25,000 are in Cuba. Communist strength in Guatemala was estimated to be about 4,000 before the anti-Communist revolution in June 1954. The

Communist parties elsewhere are numerically negligible. Except in the special case of Guatemala, and perhaps Honduras, Communist party membership has generally declined during the past year, and it will now almost certainly decline in Guatemala also. The Communists have not penetrated the Caribbean armed forces to any appreciable extent. However, the experience in Guatemala indicates the extent to which a Communist dominated regime can neutralize the usual role of the Army.

38. Throughout the area the Communists exert an influence far out of proportion to their limited numerical strength through the skill with which they have identified themselves with progressive and nationalistic movements. Thus the rising non-Communist demand for social, economic, and political change has been exploited to serve Communist purposes: to discredit anti-Communist governments and to convert popular dissatisfactions into antagonism toward the US. Communist efforts to these ends have been greatly facilitated by the memory of US military interventions in the Caribbean republics, by the susceptibility of the intelligentsia to Marxist cliches, and by the ease with which the established economic pattern could be characterized as "feudal" and "colonial."

39. Guatemala is, of course, the prime example of the successful application of this Communist technique. There, through personal influence with President Arbenz, a small but zealous group of Communists was able to gain control of the implementation of the social reforms promised by the Revolution of 1944. The potential opposition was fragmented. The traditional ruling elements, landed gentry and senior army officers, had been discredited. Anti-Communist urban reformist elements were themselves antagonistic toward "feudal" landholders and foreign corporations and were therefore unwilling to make common cause with them against the Communists. Arbenz' control of the Army neutralized its anti-Communist tendencies and protected the regime against counter-revolutionary attempts. Under Arbenz' patronage, the Communists were able to infiltrate and dominate other political parties and to begin building up a mass following of their own through their control of labor organizations and of agrarian reform. Given a little more time, they might have made their position secure against any internal opposition through the development of an armed workers' and peasants' militia.

40. Possession of a secure base in Guatemala greatly enhanced Communist capabilities throughout the Caribbean area. The example of Guatemala was in itself infectious. Guatemalan propaganda against "feudalism" and "colonialism" appealed to the prejudices of a wide audience. Guatemala afforded not only a safe refuge for Communist fugitives from other countries, but also a base for international con-

spiratorial action. Communist subversive activity based on Guatemala was apparent in the strike of Honduran plantation workers. That technique was capable of further extension.

41. The Guatemalan anti-Communist revolution of June 1954 has deprived the Communists of the advantages which they derived from the patronage and protection of President Arbenz, but the ensuing situation has aspects subject to Communist exploitation. For example, the revolution itself will continue to be represented in Communist propaganda as a US intervention in behalf of the United Fruit Company, an effective line with a Caribbean audience predisposed to believe the worst of the United States, the United Fruit Company, and Caribbean "reactionaries." The Communists may also have a capability to create disturbances in Guatemala through guerilla action by armed bands of agrarian workers.

42. Since the Communist reverse in Guatemala, the Popular Socialist Party in Cuba (PSP), the largest Communist party in the Caribbean, is also the most influential. The PSP has support in student, youth, and women's groups and among intellectuals, but its main following lies in the trade unions, especially in transportation, sugar mill, and tobacco workers' unions.

43. The PSP's effectiveness has been reduced by the anti-Communist measures of the Batista government, which have outlawed the party as such, suppressed its key publications, declared Communists ineligible to hold public and union offices, and restricted travel to Soviet Bloc countries. The PSP has also been hindered by its failure to form a united front with other opposition groups, and by dissension within its own ranks. Nevertheless, the Communist leadership in Cuba remains united and militant, and individual Communists have been successful in penetrating other political parties, labor unions, and the bureaucracy, particularly the Ministry of Labor. They have had conspicuous success in the two pro-Batista parties. This success is attributable in part to the fact that the influential non-Communist Cuban Labor Confederation has consistently belittled the importance of the relatively small pro-Batista elements in organized labor, with the result that the pro-Batista parties have turned to the Communists as a means of acquiring influence among the workers.

44. The attitude of President Batista himself toward the Cuban Communists has been equivocal. He has cooperated with them in the past, as have his political opponents. He now takes an anti-Communist line in international affairs and has outlawed the PSP, but he has also professed to believe that Communism is not an important factor in domestic affairs and that in any case it can be readily controlled.

45. Elsewhere in the area the development of Communist potentialities has been held well in check. In El Salvador in 1932 a Communist-

inspired peasant uprising was ruthlessly suppressed. Since then the only serious Communist threat has been that of infection from Guatemala. The development of a Communist threat in Costa Rica was frustrated by the anti-Communist revolution of 1948. President Remon has sharply curtailed the once extensive Communist influence in Panama. The surprisingly well organized strike of plantation workers in northern Honduras was indicative of Communist underground activity, but the anti-Communist revolution in Guatemala has deprived the Honduran movement of valuable outside support. No appreciable Communist threat has developed in Nicaragua, Haiti, or the Dominican Republic.

46. Caribbean Communist international contacts are maintained through the Communist-controlled Latin American Confederation of Labor (CTAL), with headquarters at Mexico City, and through the travel of party leaders and selected sympathizers to Soviet Bloc countries and to Communist-sponsored international conferences. There has been a marked increase in such travel since 1950, the expense being borne for the most part by the USSR.

V. *The Armed Forces*

47. The armed forces of the Caribbean republics exist to defend their incumbent governments against internal subversion, filibustering expeditions from abroad, and the possibility of armed intervention by antagonistic neighboring regimes. In Caribbean opinion, defense against any more formidable aggression is both beyond the republics' limited capabilities and sure to be provided by the United States in its own interest. Under the concept of hemisphere defense, however, and with requisite provision of US assistance, most of the Caribbean republics will probably maintain small units equipped and trained for modern combat and available to assist in an integrated defense of the Caribbean area.

48. The ground forces of the Caribbean republics (see Annex II[4]) consist of both army units and militarized police. That distinction is generally without real significance. Both army and police forces are normally dispersed in small units, except for concentrations of both at the capital cities. Such concentrations of army strength generally amount to less than the numerical equivalent of one US infantry battalion. The ground forces of Haiti, the Dominican Republic, and Nicaragua were originally organized as constabularies during US military occupation and retain that essential character, despite changes in nomenclature. Costa Rica realistically describes its only armed force as the Civil Guard. Panama has recently redesignated its National Police as the National Guard, the term also used by Nicaragua. The Cuban

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[4] Not printed here.

Army (20,000 men) is the only one worthy of consideration as an army.

49. Air forces are maintained by all the Caribbean republics except Costa Rica and Panama (see Annex II), but the Dominican and Cuban air forces are the only ones with appreciable strength in men, pilots, and aircraft. The others are minor auxiliary units with few qualified pilots and generally obsolete equipment. However, the effect achieved by Castillo Armas' minute air force is likely to intensify Caribbean interest in air capabilities.

50. Such Caribbean navies as exist are essentially coast guards. Cuba and the Dominican Republic have an additional special interest in maintaining naval capabilities for defense against filibusters. Their navies are the only ones worthy of consideration (see Annex II).

51. At present the armed forces of Cuba, the Dominican Republic, Guatemala, El Salvador, and Nicaragua are capable of maintaining internal security and defending against raids. Those of Haiti, Honduras, Costa Rica, and Panama are capable only of suppressing minor civil disturbances. In a major emergency most of the Caribbean republics would expect to augment their armed forces with hastily assembled volunteers.

52. The United States maintains army missions in all the Caribbean republics except Haiti and the Dominican Republic, air force missions in all except the Dominican Republic, Costa Rica, and Panama, and navy missions in Cuba and Haiti. In addition, Cuba, the Dominican Republic, Nicaragua, and Honduras have entered into military assistance agreements with the United States, and a similar agreement is under negotiation with El Salvador. Under these agreements, Cuba and the Dominican Republic have undertaken to contribute naval and air units to hemisphere defense. Nicaragua and Honduras have undertaken to furnish one infantry battalion each for the same purpose, and the same commitment is being sought from El Salvador.

VI. *General Economic Conditions*

53. The nine Caribbean republics are similar in economic structure, though they vary widely in rate of economic growth and capacity for development. With the exception of Panama, which depends substantially on commercial activities, their economies are based primarily on agriculture, which provides nearly all of their food requirements and the bulk of their exports. Industrial output is confined largely to processed foodstuffs and nondurable consumers' goods. Except in the production of export crops, agricultural methods are technologically backward. The industrial plant, geared to limited national markets, is in general small and poorly equipped. Basic service industries are insufficiently developed to permit large scale and sustained economic

development. The area's low economic capability is indicated by the low level of per capita national income, which ranges from $296 in Cuba to $40 in Haiti and is generally below $100 (see Annex I).

54. Inasmuch as the area's requirements for capital goods and for a very large proportion of consumers' goods must be procured from abroad, foreign trade is vital to the national economies and they are vulnerable to fluctuations in the terms of trade. The principal export commodities are coffee, sugar, and bananas (see Annex III[5]). The United States is the principal market and source of supply for each of the nine republics.

55. After an interval of readjustment in the immediate postwar years, the economic position of most of the Caribbean republics has generally improved. A sustained rise in the prices of their export commodities has notably improved their terms of trade and stimulated economic growth. The coffee producing countries are currently enjoying a special advantage in this respect. On the other hand, Cuba and the Dominican Republic have been adversely affected since 1952 by declining demand and prices for their sugar. The most difficult economic situation is that of Panama, the economy of which is largely dependent on the level of US activity in the Canal Zone. Panama's readjustment to the cessation of US wartime operations in the Zone has been prolonged and painful.

56. Throughout the area, production of foodstuffs and raw materials for local consumption has on the whole kept pace with population growth. Most countries have also made progress in expanding the industrial sectors of their economies through increased production of consumers' goods and construction materials. However, the relatively slow development of basic services has been an important limitation on economic growth.

57. Desire for economic development has stimulated government study of economic potential and the preparation of development programs. The governments of Cuba, Haiti, Guatemala, Nicaragua, and Costa Rica have been active in this respect. However, the implementation of such programs is hindered by lack of readily available capital resources and of technical skills.

58. In recent years, foreign private investment capital has generally been unwilling to enter the area on a large scale, partly for lack of confidence in political stability, partly also in view of the narrow limitations of local markets. Foreign investment has continued to expand, however, in those fields in which such investment was already large, notably in the banana and electric power industries. Moreover,

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[5] Not printed here.

several republics (Cuba, Haiti, El Salvador, Nicaragua, and Panama) have been able to obtain modest financial assistance from the Export-Import Bank or the International Bank for Reconstruction and Development.

VII. *Internal Policies Affecting US Private Interests*

59. Caribbean dissatisfaction with a "colonial" economic status finds expression in antagonism toward the large US corporations operating in the area, particularly toward those which enjoy special privileges granted in former times. The Communists exploit this dissatisfaction for their own purposes, but the sentiment is real and general. Various pressures have been brought to bear to compel such interests to relinquish their special privileges and to pay higher wages and taxes.

60. Aggregate US direct private investments are greatest in Cuba and Panama, on a lesser scale in the Dominican Republic, Guatemala, Honduras, and Costa Rica, and relatively slight in Haiti, El Salvador, and Nicaragua (see Annex III). They consist chiefly of plantations and public utilities (transportation, telecommunications, and electric power). The largest single US interest in the area is the United Fruit Company, which operates in all of the Caribbean republics except Haiti, but mainly in Guatemala, Honduras, Costa Rica, and Panama. It is the principal target of Caribbean economic nationalism and of Communist agitation.

61. The United Fruit Company, parent company to some sixty operating subsidiaries, has total assets estimated at $580,000,000. Its primary business is the production of a major part of the world's marketable supply of bananas, but it incidentally produces abaca, cacao, hardwoods, palm oil, and sugar as well. Its landholdings in the Caribbean republics, Jamaica, Colombia, and Ecuador amount to some 3,000,000 acres, and it provides employment for some 90,000 persons in those countries. In addition to its plantations, it operates 1,500 miles of railways, several ports, a fleet of 65 ships, and extensive telecommunications facilities. These services, provided for its own convenience, are also of vital importance to the economies of Guatemala, Honduras, Costa Rica, and Panama, as are also the company's payments to governments, private firms, and wage earners in those countries. At the same time, the company provides for its employees housing, commissaries, schools, hospitals, social services, and recreational facilities that would otherwise not be available to them.

62. The United Fruit Company has made and is making a most important contribution to the economic development of Central America, but there is in those countries a strong sense that, out of its profits, it could contribute more. The Company's over-all financial strength and its dominant position in several national economies are regarded as a

threat to national sovereignty. This sense of an implicit threat is strengthened by the recollection of former times when the Company brought up venal politicians to facilitate the negotiation of favorable concessions and was commonly understood to have also procured revolutions whenever its interests would be furthered thereby. Nationalistic opinion discounts the benefits extended by the Company to its employees as grudging responses to pressure exerted by governments and labor organizations. In any case, the Company's paternalism is itself offensive to ardent nationalism. For example, in Costa Rica, which has long taken pride in its schools, the Company's separate school system has been an affront to the national dignity.

63. The United Fruit Company encountered its worst difficulties in Guatemala under the Arbenz regime. Whatever the merits of Guatemalan domestic legislation, the laws were undoubtedly applied with extreme prejudice toward the Company. In addition to constant harassment in labor courts with respect to wages and working conditions, it suffered the expropriation of a large proportion of its landholdings without regard for its operating requirements and without adequate compensation.

64. In contrast to its Guatemalan experience, the Company has been able to negotiate with Costa Rica a revision of the terms of its contract which may serve as a model for readjustments elsewhere. The Company has conceded to Costa Rica the right to take over the schools, hospitals, and dispensaries now operated by it, and has accepted an increase in its taxes up to 30 percent of the net profit of all its operations in that country.

65. US-owned sugar companies operating in the Dominican Republic have also experienced disciminatory pressures by the Dominican Government, but this seems to be a matter of private extortion rather than of public policy.

VIII. *Intraregional Relationships*

66. The relationships of the Caribbean republics with one another are conditioned in part by their historical origins and associations. Haiti is singular, as a former French colony and a Negro state. It was the first to achieve independence, in 1803, but for generations was ostracized as a menace to the peace and social order of the region. The Dominican Republic, which considers itself a white community in contrast to Haiti, was annexed by Haiti, 1822–1844, and for another thirty years was subject to repeated Haitian attempts to reconquer it. Haitian-Dominican relations remain embittered by this history and by color prejudice. Central America was a single Spanish colony which became an independent federal state in 1824. The Federation dissolved in 1838, but repeated attempts have been made to revive it, the

latest effort in this direction being the Organization of Central American States (ODECA). Meanwhile the successor republics have freely interfered in one another's affairs. Cuba remained a Spanish colony until 1898; Panama, a part of Colombia until 1903.

67. The conspiratorial and revolutionary politics of the Caribbean normally extend across national boundaries. For over a century it has been customary for the leading adherents of a regime overthrown by revolution to take refuge in a sympathetic neighboring country, there to plot counterrevolution with the sufferance, and perhaps the active support, of the host government. Conversely, the security of a given regime is seen to depend in large part on the existence of friendly governments in neighboring countries, a consideration which may lead to the fomenting of revolution abroad in order to forestall revolution at home. Thus a successful revolution in one country is likely to lead to revolutionary attempts in others as well as to international counterrevolutionary conspiracy.

68. This tendency has been accentuated by the increasing tension between traditionalist and reformist elements in the Caribbean, which has resulted in shifting international alignments involving most, but not all, of the Caribbean republics. These alignments are commonly described as the "democracies" versus the "dictatorships," but these terms are not precisely descriptive in all cases. Actually, adherence to one group or another has been as much a matter of expedience as of ideological considerations. The initial alignment developed from a conspiratorial combination of Dominican and Nicaraguan exiles, with Cuban, Guatemalan, and Venezuelan cooperation and encouragement, to overthrow the Trujillo regime in the Dominican Republic and then the Somoza regime in Nicaragua. This original conspiracy was frustrated in 1947 by the belated decision of the Cuban Government to prevent the use of its territory as a base of operations against Trujillo, but the filibustering organization which had been formed, the "Caribbean Legion," gave important military support to Figueres in his 1948 revolution against a Costa Rican regime that was paradoxically affiliated with Somoza as well as with the Communists. In 1949 renewed plots, counterplots, and complaints led to an intervention by the Organization of American States which resulted in the dissolution of the "Caribbean Legion."

69. The revolutionary overthrow of the "democratic" regimes in Venezuela (1948) and Cuba (1952) brought about the realignment of those countries. Inasmuch as the new regime in Guatemala is beholden to Somoza, Costa Rica is now isolated as the last proselytizing "democracy." Since 1948 Costa Rica has been a refuge for "democractic" exiles, most notably Romulo Betancourt, the former president of Venezuela. There can be no doubt that exiles in Costa

Rica have conspired against both Somoza and the Perez Jimenez regime in Venezuela; the Costa Rican Government was at least culpably negligent with respect to the recent plot to assassinate Somoza. Recently, in the face of a threatened revolutionary attempt by Calderon Guardia with Nicaraguan and Venezuelan support, Figueres has adopted a more correct attitude and Betancourt and other exiles have left Costa Rica. Nevertheless, it is an open secret that both Somoza and Perez Jimenez are out to get Figueres, with the cordial good wishes of Trujillo and Batista.

70. In Caribbean and in general Latin American opinion, this issue of "democracy" versus "dictatorship"—that is, of social and political change versus traditional authoritarianism—is a matter of far greater importance than the question of Communism or anti-Communism. The point is illustrated by Somoza's former support of the Communist-infiltrated Picado administration against Figueres and the "Caribbean Legion." Figueres' anti-Communist record and the fact that he has made his peace with the United Fruit Company will not stay the hands of Somoza and Perez Jimenez against him. Perez Jimenez has made it plain that, from his point of view, the elimination of Figueres is a matter of more urgent importance than was the elimination of Arbenz.

IX. *Relations With the United States*

71. With the notable exception of Guatemala under Arbenz, the governments of the Caribbean republics have recognized that, in view of the strategic importance of the Caribbean to the United States and of the overwhelming preponderance of US economic and military power in the area, they must accommodate their policies to US security interests, if only as a matter of practical expediency. However, popular suspicions of US motives make it necessary for governments to avoid the appearance of subservience to the US, and somewhat limits the ability of governments to cooperate with the US. Moreover, in return for their cooperation, governments of the area expect from the United States protection, toleration of their peculiar domestic political processes, and a generous attitude toward their economic problems. They strongly support the Organization of American States and the United Nations, in part as a means of obtaining a voice in international affairs out of proportion to their meager strength, but also as a means of invoking general Latin American support, if need be, as a safeguard against US domination.

72. All the Caribbean republics except Guatemala have ratified the Rio Treaty and all are disposed to cooperate with the United States in hemisphere defense.* In the OAS and the UN, all except Guatemala

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*On 25 March 1954 Guatemala withdrew the instrument of ratification of the Rio Treaty which had been previously deposited with a reservation unacceptable to various signatory states. The reservation concerned Belize, with respect to which Guatemala maintained that it might assert "its rights . . . by any means it may deem most advisable." [Footnote in the source text.]

under Arbenz have consistently supported the United States on basic issues with the Soviet Bloc. On certain other issues involving "colonialism" and underdeveloped areas their record has been variable, as has that of the Latin American states generally. All except Guatemala (under Arbenz) supported the US-sponsored anti-Communist resolution adopted by the Caracas Conference. At the same time all except Costa Rica (which was absent) took occasion to emphasize their opposition to colonialism and their sense that the United States had discriminated against Latin America in matters of financial assistance and trade.

73. The conflict between "democracy" and "dictatorship" in the Caribbean confronts the United States with a dilemma, for both sides feel entitled to active US support. The "dictators" present themselves as guarantors of stability and order and of cooperation with the United States. The reformists, by definition, are an unsettling influence, but they contend that the United States, as a progressive democracy dominant in the area, has a moral obligation to foster social and political development, and they attribute any denial of positive support to the sinister influence of the "dictators" and the United Fruit Company on US policy. Conversely, the "dictators" resent any indication of US support for reformist regimes as a betrayal of the "true friends" of the United States. It is a primary Communist objective to identify the United States as the chief support of the Caribbean dictators and the chief obstacle to social and political progress in the area.

74. US relations with Panama constitute a special problem because of US control of the Canal Zone in the heart of the Republic and because of the importance to the Panamanian economy of dollar earnings from the Zone. In these special circumstances, Panamanian governments have to strike a nice balance between popular sensitivity regarding the national sovereignty and dignity and a real necessity to maintain cooperative relations with the United States. Panamanians have long resented discrimination against them in the administration of the Zone, particularly on a racial basis, and the commercial competition of installations in the Zone established for the benefit of US personnel. These resentments have been intensified by the depression of the Panamanian economy resulting from the postwar curtailment of US activity in the Zone. President Remon has deprived his political opponents of this issue by committing himself to secure a substantial increase in the annuity paid by the United States for use of the Canal Zone, and also to secure the elimination of US commercial competition and of wage differentials in the Zone. Perhaps purposefully,

Remon thereby put himself in such a position that a failure to obtain substantial satisfaction would be detrimental to the stability of his administration, on the calculation that the United States would not be willing to see his regime weakened. The matter is still under negotiation.

X. *Relations With the Soviet Bloc*

75. The Caribbean republics have virtually no relations with the Soviet Bloc other than the connections maintained by local Communist parties (see paragraph 46). Since Cuba severed diplomatic relations in 1952, no Bloc country has had direct diplomatic representation in any of the republics, not even in Guatemala under Arbenz. The Czech minister resident in Mexico is also accredited to Guatemala. The Polish minister in Mexico has presented his credentials in, and they are believed to have been accepted by, Panama, Costa Rica, Honduras, Nicaragua, and Haiti. Bloc trade representatives, mostly Czech, have visited the area from time to time, but Caribbean commercial relations with the Bloc are negligible.

XI. *Attitudes of Other Latin American States*

76. Recognizing US predominance in the Caribbean area and remembering US military and political interventions in various Caribbean countries, the other Latin American states tend to keep a close watch on US relations with the Caribbean republics as a test of US good faith in the implementation of the Good Neighbor Policy. Their sensitivity on the issue of intervention was amply demonstrated with respect to the Caracas anti-Communist resolution and in public and congressional reaction to the June 1954 revolution in Guatemala. From their point of view, a question of US intevention in the internal affairs of a Caribbean republic is a matter of far more urgent importance than that of an indirect and long-term Communist threat.

77. The other Latin American republics, themselves addicted to economic nationalism, are predisposed to sympathize with economic nationalism in the Caribbean republics and to support them in their relations with such an entity as the United Fruit Company.

78. In matters relating to the issue of "democracy" versus "dictatorship" in the Caribbean, the sympathies of the other Latin American republics tend to vary in accordance with their own character. Venezuela is already an active participant in the Caribbean alignment, but Colombia stands aloof from it. Other countries, such as Peru, in which the traditional order still prevails naturally sympathize with the traditional ruling elements in the Caribbean. On the other hand, Uruguay, as the professed champion of democracy in Latin America, is predisposed to take the opposing position. Mexico, which has had its own social revolution, but is now interested in preserving

stability and order, is disposed to sympathize with Caribbean social reform, but to work to avert political and armed conflict. Brazil also favors conciliation.

XII. *Probable Future Developments*

79. The pressure for social, economic, and political change in the Caribbean will continue to grow. For the time being, however, the elements resisting change are in the ascendant. Whether eventual change is orderly will depend in large measure on whether the existing regimes can bring themselves to promote social, economic, and political progress, or whether, through static repression, they make virtually certain an eventual violent explosion. In any case, no substantial improvement in basic conditions is likely to occur for many years.

80. The overthrow of the Arbenz regime has removed the most immediate and dangerous threat to stability and order in the region, but, in Guatemala and throughout the Caribbean, the Communists will continue to make the most of plentiful opportunities for agitation.

81. The prospects for stability and order in Guatemala depend, immediately, on continued cooperation between Castillo and Monzon, and ultimately, on whether the new regime can and will adhere to the broad objectives of the Revolution of 1944 while rooting out Communism and normalizing Guatemala's relations with the rest of the American community. Any other policy would be likely to lead to further internal conflict.

82. The greatest present threat to stability and order in the region is the animosity of Somoza and Perez Jimenez toward Figueres. Figueres' recent more conciliatory attitude has eased the situation somewhat, but neither Somoza nor Perez Jimenez is likely to become reconciled to the continued existence of the Figueres regime.

83. Election periods are critical times in all the Caribbean republics. Presidential elections are now scheduled to be held in Honduras and Cuba during 1954, in El Salvador and Panama during 1956, and in Haiti, the Dominican Republic, Nicaragua, and Costa Rica during 1957. None is scheduled for 1955. The October election in Honduras may precipitate armed violence in some degree. The issue cannot be predicted. President Batista will make sure of winning the November election in Cuba.

ARGENTINA

UNITED STATES RELATIONS WITH ARGENTINA[1]

611.35/6–2352

Memorandum by the Ambassador in Argentina (Bunker)[2]

SECRET [BUENOS AIRES,] March 11, 1952.

SUGGESTIONS FOR ARGENTINE POLICY

I. WHY A REVIEW OF U.S. POLICY TOWARD ARGENTINA

Recent changes in the orientation of Argentine domestic and international policy appear to make appropriate a review of U.S. policy toward Argentina. Official Argentine policy during the last year has shown evidence of a shift toward almost exclusive attacks on the U.S. in place of the traditional interpretation of Argentina's "Third Position" as equidistant between Capitalism and Communism. There are even some evidences of communist political influences in high government circles.

Argentine penetration in many levels of Latin American life under the guise of spreading Peronismo now appears to represent a more direct threat to hemispheric unity and democratic institutions than heretofore. This is particularly true because of the substantially increased program of Argentine propaganda in all of Latin America, a propaganda which often shows a striking parallel to that of communism. In addition, these activities are known to extend beyond Latin America and are particularly evident in the countries of the Middle East.

It now appears compelling to recognize that these efforts to extend Argentine influence are now fundamentally and aggressively anti-U.S.

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1079 ff.

[2] Drafted shortly before Ambassador Bunker's departure from Buenos Aires on Mar. 13, 1952, after his appointment as U.S. Ambassador to Italy. The memorandum was submitted to Mr. Miller, who had copies circulated to officials within the Bureau of Inter-American Affairs during April and May. No indication of the drafting officer is contained in the source text.

Ambassador Bunker was succeeded at Buenos Aires by Albert F. Nufer, who was appointed U.S. Ambassador to Argentina on May 29, 1952. Ambassador Nufer arrived in Buenos Aires on July 16, and presented his credentials on Aug. 14.

and represent a potential threat to the program of hemispheric unity. While it is not suggested that Argentina will succeed in establishing a large bloc of third position countries, it is evident that she has already been successful in building up small but vocal nuclei in almost all Latin American countries, willing and ready to support Argentine aims.

II. BASIC CONDITIONS AND ASSUMPTIONS SURROUNDING A REVIEW OF U.S. POLICY TOWARD ARGENTINA

Certain fundamentals must be agreed upon in discussing a review of Argentine policy, viz.:

1. Perón has the political support of the majority of the Argentine people.
2. There is no substantial evidence pointing toward a change in the character of the government in the near future.
3. Even in the event of a change, a new government would not necessarily be more favorably disposed toward the U.S., nor would its international objectives greatly differ from those of Perón.
4. Argentine attitudes are influenced by certain national characteristics. These include a deep-seated nationalism, a jealous regard for Argentine sovereignty, a feeling of superiority over other Latin American nations, and a traditional envy of the U.S.
5. From the viewpoint of Perón and his followers, communism does not threaten Argentine security.
6. Peronismo has been built up in Argentina as an answer to the ideological threat of communism, but, at the same time, is designed to combat what they consider a more immediate threat: that of U.S. "imperialism."
7. Argentina is traditionally isolationist. This arises, in part, from a sense of security due to geographical position and the fact that she has never participated in, or materially suffered from, a major war. Her attitude parallels the isolationism which had long existence in the U.S.
8. Perón's recent pronouncements against sending troops outside Argentina violate the spirit of the Rio Pact.[3]
9. Political relations with Argentina are complicated by economic conflicts arising from competition between U.S. and Argentine export agriculture, and by the absence of a sound trade structure so long as European currencies are not freely convertible.
10. Argentine strength internationally derives principally from its importance as a food exporter; conversely, its great weakness is its de-

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[3] Reference is to the Inter-American Treaty of Reciprocal Assistance (Rio Pact), opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948; for text, see Department of State Treaties and Other International Acts Series (TIAS) No. 1838, or 62 Stat. (pt. 2) 1681.

pendence on imported fuels, chemicals, machinery and transport equipment.

11. Argentine efforts to split Latin America will doubtless continue or be increased and may become more damaging to our interests.

12. If we take no action in the (Latin American) fields in which Argentina is attempting to undermine U.S. prestige and sow disunity, the Latin American countries in which this is taking place can rightfully assume a lack of interest on our part.

It is evident that Argentina finds herself in direct or indirect conflict with certain U.S. aims and is less amenable to ordinary diplomatic negotiation than other Latin American countries. At the same time, it has become increasingly difficult for the U.S. to find a common ground of understanding with Argentina without seriously compromising the principles which the U.S. supports.

III. WHAT SHOULD BE OUR POLICY OBJECTIVES TOWARD ARGENTINA

A. *Political Cooperation*

1. Argentine collaboration in the maintenance of peace and international security especially in the Western Hemisphere, including genuine adherence to the Bogotá [4] and Rio Pacts and the principle of hemispheric unity.

2. Creation and maintenance of a favorable climate of Argentine public opinion toward U.S. and its policy.

3. Obviate or counter that Argentine political penetration in many levels of Latin American life which is fundamentally anti-U.S. and furthers communist objectives.

4. Stronger Argentine support for the democracies in international bodies (UN, ECOSOC, ILO, etc.).

B. *Economic Cooperation*

1. Arrangements to encourage the production of and to make available strategic materials (such as tungsten and beryl) to the U.S. and perhaps other non-communist nations.

2. Cooperation in controlling exports of critical materials to the Soviet bloc.

3. Adoption of measures to encourage production and availability of agricultural products required by non-communist nations, at reasonable world prices.

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[4] Reference is to the American Treaty on Pacific Settlement (Pact of Bogotá), signed at the Ninth International Conference of American States, held at Bogotá, Mar. 30–May 2, 1948, but not submitted to the Senate for advice and consent to ratification, and thus never entered into force for the United States; for text, see *Ninth International Conference of American States: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 3263, Washington, 1948), p. 186, or *Annals of the Organization of American States, 1949*, p. 91.

For documentation concerning the Ninth International Conference, see *Foreign Relations*, 1948, vol. IX, pp. 1 ff.; for documentation relating to the unwillingness of the United States to ratify the Pact of Bogotá, see *ibid.*, 1949, vol. II, pp. 419 ff.

4. Development of mutually sound economic relations, including the assurance of non-discriminatory treatment of U.S. enterprise operating in Argentina and the settlement of arrears in financial remittances.

C. *Military Cooperation*

1. Assurance that Argentina will carry out agreements of IADB and Rio Pact.

2. Provision of effective measures to avoid repetition of Argentine behaviour during World War II, when Argentina was the hemispheric center of our enemies' espionage and propaganda.

IV. WHAT IS IT THAT ARGENTINA SEEKS FROM US

Any discussion of accord with Argentina must take into consideration Argentina's objectives in relation to the U.S. regardless of how unrealistic some of them may seem to us. Among the more apparent of these are:

1. Recognition as a world power, and as the leader and dominant power of Latin America.
2. a. Personal recognition of Perón and Evita. b. Recognition of Perón as a world leader. c. Recognition of his program of Peronismo.
3. More favorable U.S. press on Argentina.
4. U.S. support in Falkland Islands and Antarctic issues.[5]
5. A statement by U.S. that the existence of European colonies in the Western Hemisphere is contrary to the principles of the hemisphere.
6. Recognition of Argentine CGT by democratic international labor bodies and as a leader of organized labor in Latin America.
7. "Fair" economic treatment, which may include:
   a. Larger allocation of scarce products and materials.
   b. Establishment of a ratio guaranteeing parity between prices of commodities exported and imported.
   c. Acceptance by the U.S. of the principle of "just" wages to labor in Latin America as the basis for price-fixing in U.S. purchases.
   d. Guarantees against declining purchasing power of Argentine dollar holdings.
   e. Extension of non-governmental credits.
   f. Cessation of alleged "intervention" of U.S. government in "manipulating" world commodity prices.
   g. Membership in additional committees of the International Materials Conference.

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[5] For documentation concerning U.S. policy with respect to the Antarctic, see volume I.

8. Military Aid[6] and equal participation in formulation of Western Hemispheric defense.

Note

It appears impossible for the U.S. to concede complete fulfillment of all or even most of such Argentine objectives. Nevertheless, possibilities exist for some accord. But any policy which contemplates direct negotiation leading toward agreement with Argentina should be based on hard *quid pro quos*.

V. LIMITATIONS AFFECTING OUR POLICY

Certain limitations of a generally tactical nature must be recognized in considering a policy toward Argentina:

1. Although it should not be allowed to influence long-range policy, U.S. public opinion is currently unsympathetic to Perón and Argentina. The Department could not successfully impose a policy which would ignore this.
2. The economic concessions which the U.S. could make to Argentina are minor and, moreover, are circumscribed by the Department's limits in influencing other agencies concerned.
3. Any psychological attack on Argentina or on the Argentine influences in those countries where she seeks to undermine the U.S. must necessarily be restricted by considerations of the U.S. policy of non-intervention and of the important requirement to preserve the inter-American system. Any activity which could result in dividing Latin American opinion, would further Argentine objectives.
4. Any obvious psychological attack within Argentina itself is strictly limited.
5. The countries surrounding Argentina, which are generally concerned at her interference and intentions, tend to support us and should have knowledge of our support of them. There are indications that, assured of our support, they would make important contributions to a psychological counterattack against Argentina.
6. Argentine strength for her propaganda offensive against us lies in certain advantages accompanying dictatorship: centralized control of the press and other media, of policy, etc.; but weakness is also present in the form of vulnerability to suspicion, to rumor, fears of plots and internecine war.

VI. SUGGESTIONS FOR A POLICY TOWARD ARGENTINA

A. Any recommendations for a policy toward Argentina must consider probable Argentine tactics, based on her probable aspirations. As

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[6] In a memorandum of conversation with Col. Thomas W. Sharkey of the Department of Defense, dated Feb. 5, 1952, Henry Dearborn of the Office of South American Affairs stated that Colonel Sharkey had inquired whether, in view of Argentine interest in obtaining grant military aid from the United States, the Department of State might wish to reconsider its opposition to discussion of the matter with the Argentines. Mr. Dearborn further stated that he had informed Colonel Sharkey, in part, that "on the basis of information now available we would almost certainly not favor any change" in the U.S. position at the time. (735.5 MSP/2–552)

Argentina seeks to enlarge her world position and prestige; to establish herself as leader of a neutral bloc of countries not limited to Latin America, holding a Third Position between communism and "Capitalist-Imperialism;" and as a leader of Latin America with sufficient support to oppose U.S. influence, she will probably:

1. Use any means she can afford, and which are permitted her by U.S. passivity to:

   a. Undermine the U.S. position in Latin America
   b. Attract potential "neutrals" to her Third Position
   c. Establish a nuisance value to obtain favorable treatment.

2. Let more pretentious national aspirations await a time when the U.S. is otherwise occupied, the Inter-American system disrupted, and such balancing power as Brazil could be safely opposed.

B. Argentine aspirations constitute a positive and continuing threat to U.S. objectives and policies. It therefore appears necessary to undertake measures which will nullify Argentine activities insofar as they oppose our own.

C. While continuing a generally correct policy toward Argentina, it is suggested that:

1. We begin to use every profitable opportunity to counter strongly Argentine anti-U.S. propaganda and political penetration of Latin America. A successful tactic might well be to foster opposition to Argentine tactics by third countries, even including those outside the Western Hemisphere.

2. The interest of Latin American countries should be aroused to the danger to them and to Latin American unity. Each country should be encouraged to adopt its own measures to oppose Argentine penetration.

3. As a corollary, the U.S. should be more positive and aggressive in advocating improved living standards and welfare programs among the American Republics, through others' efforts as well as through our aid. Accomplishments rather than U.S. expenditures should be publicized in dealing with Point IV and other U.S. aid. Efforts should be made to prevent marking our assistance with a dollar sign, as has been frequently done, and which places us on the defensive when expenditures elsewhere are larger. Initiative in advocating welfare programs should more often be ours in hemispheric organizations, but not necessarily through the financing of projects. Our public relations should endeavor to seize credit which now redounds to Latin American oratory.

4. The Department should enlist the cooperation of the U.S. trade union movement and, through it, the ORIT, in a closely coordinated plan of counter measures in each individual country, designed to neutralize Argentine anti-U.S. activities.

5. Coincidentally with the counter measures suggested above, a more effective working relationship should be established between the U.S. mission and the Argentine government. The time seems to be approaching when such relations will be possible. The most fruitful would be between Perón and the ambassador. Personal characteristics which

appear desirable for establishment of effective personal relationship with Perón include:

1. A personality which can win his friendship, personal admiration and respect.
2. Personal prestige.
3. If possible, a conversational knowledge of Spanish.

Ambassador Bunker possessed all three of these to a high degree, but for other reasons, including the disturbed period of Argentine elections and the prolonged illness of Sra. Perón, close personal relations with the President were not appropriate.

6. The primary points of which it is necessary to convince Perón, as a preliminary to further understanding include:

a. Sincerity of the U.S. purpose
b. Consistency of U.S. motives
c. U.S. willingness to be as friendly with Argentina as Argentina permits.

7. Through the Ambassador to Perón, through the Argentine Ambassador in Washington, and by every means opportunity affords, the importance should be stressed of *shifting* Argentina's propaganda attack on the U.S. to an attack against communism. The sizeable Argentine propaganda machine now used to attack the U.S. could be continually and profitably employed if directed against Moscow.

8. The more positive policy toward Argentina suggested here should not be limited to the Argentine Desk; it should be hemispheric (receive support of all ARA Desks and Missions), being coordinated from Washington both toward Argentina directly and toward all offices in the ARA area generally.

9. The final point of these suggestions is reserved for personal discussion by Ambassador Bunker, with proper Department personnel.

Secretary's Staff Meetings, lot 63 D 75

Notes of the Secretary of State's Staff Meeting, Held at the Department of State, 9:30 a.m., March 20, 1952[1]

SECRET

SM N-16

[Here follow a list of those present (25) and discussion relating to the Korean military situation, Communist propaganda activities, and an alleged statement by Mr. Eden concerning British membership in the Federation of Europe.]

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[1] The Secretary's staff meetings, at which the Secretary normally presided, were held twice a week during the period 1952–1960. They were attended by the Under Secretary of State, the Assistant Secretary of State, certain members of the Executive Secretariat, and certain office directors.

Report on Argentina

4. Ambassador Bunker reported that the situation in Argentina is baffling. The outstanding feature of U.S.-Argentine relations is the vituperative attacks in the local press on the U.S. and its "capitalistic imperialism." Also, there have been personal attacks on the President, Mr. Acheson, and Mr. Miller. In addition, there have been attacks on our conduct of the Korean war. In general, they have attacked what they consider aggression on our part in various parts of the world. Ambassador Bunker noted that Argentina has played up the so-called anti-U.S. features in other countries. It was pointed out that Argentine labor attachés in other countries have been strongly against us.

5. There is a pro-U.S. group in the Argentine Government, including the Minister of Defense,[2] the Foreign Minister,[3] and a few others. Usually the most friendly group toward the U.S. includes those who have been to the U.S. and know something about us. Ambassador Bunker stated that his relations with the Foreign Minister have been extremely friendly. He felt that the Foreign Minister was making some progress which would be helpful to us but this would come about very slowly.

6. Ambassador Bunker said that one of the most important factors in Argentine affairs is their current economic situation, which is extremely serious.[4] The present situation is caused by drought and government policy. They will have relatively little to export and their exchange earnings will be off about 30%. Government policy toward agriculture has caused food prices to stay down for the benefit of the workers,

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[2] Maj. Gen. José Humberto Sosa Molina.

[3] Jerónimo Remorino.

[4] The notes of the Secretary's staff meeting, held at the Department of State on Jan. 29, 1952, read in part as follows:

"*Argentine Grain and Meat Problem*

"5. The Secretary asked for some details on the grain and meat situation in Argentina. Mr. Miller reported that there will be no Argentine wheat available for export and, in fact, Argentina may have to ration grain in its own country. With respect to meat, there possibly will be a little available for export. Mr. Miller felt that these difficulties are caused by a combination of price controls, increased consumption, draining off of labor from the farms, and an unusual drought last year. Mr. Thorp agreed and pointed out the recent history in Argentina of building up industry at the expense of the farmers, which is the basic cause of the present difficulties. The Secretary asked whether this current situation would develop problems in Argentina and elsewhere. Mr. Miller said it would put the burden on us to provide more wheat to various parts of the world which had at one time been dependent upon Argentine grain. In this connection, he pointed out that Brazil has asked for almost five times the amount of grain which we had originally agreed to provide under the International Wheat Agreement." (Secretary's Staff Meetings, lot 63 D 75)

For text of the International Wheat Agreement, opened for signature at Washington, Mar. 23, 1949, and entered into force for the United States, July 1, 1949, with respect to Parts 1, 3, 4, and 5, and Aug. 1, 1949, with respect to Part 2, see TIAS No. 1957, or 63 Stat. (pt. 2) 2173.

with no incentives for agriculture producers. In addition, the producers must sell at unattractive exchange rates. Argentina has been faced with the necessity for a change in policy and has come out with virtually an austerity program. The real test involved in this program is whether they can get away with it. They have instituted liberalized prices and two meatless days, and certain restrictions have been removed. Also, it is doubted that large wage increases will take place this year. Peron must be given credit for handling the present economic situation very cleverly.

7. Ambassador Bunker reported that another important factor is Evita's health.[5] She has not made a good recovery. Evita is extremely powerful in that she controls the CGT and the charity foundation monopoly. This foundation has done some extremely good work in housing, hospitals, schools, etc. Funds are provided liberally and there is no apparent accounting for the money. The question obviously arises as to the person who might succeed her in these enterprises.

8. Ambassador Bunker stated that many ask how firmly based is the present regime. He felt that the regime is strongly rooted and that free elections would produce virtually the same results as the last election. The army now is demoralized since its September revolt attempt.[6] The CGT has made important inroads in the non-commissioned officer ranks.

9. With respect to the problem of Communism in Argentina, Ambassador Bunker said that Peron claims there are practically no Communists in his country. There is an important dissident group which split from the Communist party. This group is pro-Peronista, is anti-U.S., does not attack the Soviet Union or Communist policies, but does not openly support the Soviet Union. Ambassador Bunker explained that we are attempting to watch this group very carefully in order to see what significant role it might play in the future. Mr. Bohlen felt that this was an interesting development especially since groups which split from the Communist party are usually vigorously attacked by the Communists.

10. Ambassador Bunker felt that our recent policy toward Argentina[7]

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[5] María Eva (Evita) Duarte de Perón, wife of President Perón, died on July 26, 1952, after a long illness.

[6] For documentation on the abortive revolt, see *Foreign Relations*, 1951, vol. II, pp. 1109 ff.

[7] Despatch 1084, from Buenos Aires, drafted by Ambassador Bunker and Chargé Lester D. Mallory and dated Jan. 10, 1952, commenting on U.S. policy toward Argentina, reads in part as follows:

"Present policy, or the implementation of policy may be defined as one of 'correctness'. That is not an end in itself nor does it contain an end in itself. Rather, it is for the purhas been effective. He also believed that there has been general approval of our policy by other Latin American countries, and he felt that the future would show some results in our favor. There have been efforts in Argentina to provoke us into anti-Argentine activities, but so far we have studiously avoided such traps.

11. Ambassador Bunker stated that he hoped the U.S. would not put on countervailing duties on wool, since it would have a very bad effect in Argentina. He explained that the anti-American feeling in Argentina did not originate with Peron but is a part of the Argentine "personality." It is not clear what elements would succeed Peron if he disappeared from the scene.

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pose of allowing disturbed waters to become calm, of indicating to Argentina that we are not concerned with their often petty aberrations and in the expectation that the progress of events in the world may demonstrate that Argentina has considerably greater need of the United States than the United States has of Argentina." (611.35/1–1052)

INR–NIE files

National Intelligence Estimate [1]

SECRET
NIE–66

WASHINGTON, June 13, 1952.

PROBABLE DEVELOPMENTS IN ARGENTINA [2]

THE PROBLEM

To estimate the current situation and probable future developments in Argentina through 1953.

CONCLUSIONS

1. Despite serious economic difficulties and continuing plots to overthrow the regime, the Peron Administration will probably remain in power at least through 1952, and will probably not change its basic

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[1] A cover sheet, dissemination notice, and title sheet are not printed.

[2] A note on the title sheet reads as follows:

"The intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff participated with the Central Intelligence Agency in the preparation of this estimate. All members of the Intelligence Advisory Committee concurred in this estimate on 5 June 1952."

foreign policies: the "Third Position," one of non-alignment with either the US or the USSR, and the promotion of Argentine influence in Latin America in opposition to that of the US.

2. These economic difficulties are likely to persist, but a good grain crop in 1952–53 would probably permit the Peron Administration as presently constituted to remain in power through 1953. In these circumstances there might be a decline in the intensity of Argentine anti-US propaganda.

3. If the 1952–53 crop is no better than average and the economic situation continues to deteriorate, and if Senora de Peron dies, Peron will probably seek to retain power by broadening the base of his Administration to include moderate elements.* If Senora de Peron survives and economic conditions deteriorate, the regime will probably adopt more drastic domestic policies and will more readily utilize "dissident" Communist and pro-Communist groups, with a concomitant increase in anti-US propaganda.

4. Another serious drought in 1952–53 would so intensify current economic difficulties that the Peron Administration would be seriously threatened. If, in these circumstances, the Peron regime were overthrown, it would probably be replaced by the military, allied with moderate elements.* Any attempt by the extreme left wings of the CGT and of the Peronist Party to seize power would be countered by the armed forces. The latter would probably gain control of the country, but only after serious civil strife.

DISCUSSION

Background

5. The 1943 Revolution[3] by which Peron came to power followed a prolonged period of political and economic dislocation and readjustment in Argentina, dating back to 1930. In this period Argentina's lack of economic balance and flexibility—due largely to its relatively narrow foreign trade dependency upon the UK—was pointed up by the world depression and again by World War II. The resulting dislocation created a fertile field for appeals to economic nationalism and for the political use of hitherto neglected mass groups such as labor. But existing parties, beset by corruption and wed to certain vested interests,

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* By "moderate elements" is meant those who are either actively or passively out of sympathy with the more extreme policies of the Peron regime, and who at the same time oppose the views both of the old ruling groups of Argentina and of the Communists. [Footnote in the source text.]

[3] For documentation relating to this subject, see *Foreign Relations*, 1943, vol. v, pp. 365 ff.

failed to meet the demands of economic nationalists and to carry out social reforms.

6. In this situation Peron's assumption of power, though accomplished by force with the aid of a small group of nationalist army officers, soon became more than just another military coup. Peron rapidly developed a mass following that offset the lack of support by traditional parties and eventually counterbalanced the weight of the military itself. In the 1946 elections a Peronist coalition won 55 percent of the popular vote and virtually shattered the traditional parties.

7. After 1946 Peron, acting in the name of "social justice, economic independence, and political sovereignty," consolidated his power through a vigorous program of political and labor organization supported by all the means of propaganda and police control. In this Peron was importantly aided by his wife, who assumed the leadership of the Argentine proletariat. The regime made a studied effort to shift the balance of political power by redistribution of income for the benefit of labor and by direct state assistance to industry and control of foreign trade. In the process, a body of doctrine, "Peronism," was developed to explain and popularize the new regime. Originally close to Fascism in its emphasis on ultranationalism and its efforts to industralize the country for "defense" purposes, Peronism, in appealing for mass support, later stressed also the importance of labor and advocated programs which were in line with certain Marxist precepts. The extent of the favor shown to labor began to alienate the armed forces and the nationalist groups that desired economic development but not social change.

8. Peron's foreign policy has been based on the concept of a "Third Position," the international analogy of domestic Peronism. In keeping with Peronist professions of antagonism toward both capitalism and Communism, the "Third Position" is one of non-alignment with either the US or the USSR in the East–West struggle. It is not, however, a position of passive neutrality. Peron aggressively seeks to induce other Latin American states to follow Argentine leadership in adopting the "Third Position" also. Since the USSR's interests in the region are limited to its influence in labor and intellectual circles, while US interests are omnipresent, particularly in tangible and vulnerable commercial activities, Peron's nominally impartial policy has been predominantly anti-US rather than anti-Soviet in targets and tactics. In pursuing this policy Peron has intensified and adapted to his own purposes traditional Argentine isolationism and rivalry with the US for leadership in Latin America.

9. By 1951 the Perons' control of Argentina had increased so that the regime received 63 percent of the popular vote. While opposition forces were systematically hampered and the opposition press finally suppressed, it is probable that Peron would have won a majority in any event at that time. However, since then a poor 1951–52 harvest has brought the still unsound economic situation to a head and precipitated the present economic crisis the political effects of which have not yet been measured.

Present Balance of Political Forces

10. Under the leadership of the Perons, the Peronist Revolution has inaugurated many far-reaching political, social, and economic changes. The Revolution is, in fact, larger and more permanent that either the Peronist Party or its leaders, and there is little possibility that it could be removed root and branch, even if the Perons were to fall. Even the opposition—except for politically unimportant die-hards—does not reject the goals of the Revolution, although it demands better management of the program and more respect for civil liberties.

11. The Peron regime organized its support through two interrelated agencies, the Peronist Party and the General Confederation of Workers (CGT). While labor is the principal source of Peron's political strength, the Party also draws support from some elements of the middle class and from industrialists who have profited from protective tariff policies and nationalist emphasis upon Argentine economic self-sufficiency. The armed forces, with whose support Peron came to power, have now become largely neutral or subservient. The Party has been held together largely by the personality of Peron; there have been internal conflicts, particularly over the activities of Senora de Peron. Several once-important Peron lieutenants have been removed from office, but have not abandoned the Peronist program and still have a strong potential for leadership in the Party.

12. The CGT, which has acquired a semi-governmental status under Peron, has increased union membership in Argentina from about half a million in 1943 to a claimed 5.5 million out of a present labor force of 7 million. The primary function of the CGT leaders, who are an integral part of the Peronist organization, has been to enforce the mandates of the regime. This became more apparent after 1949, when CGT leaders established close collaboration with the police to contain labor unrest. The inability of CGT leadership completely to control the rank and file under economic pressures was illustrated in railway strikes of 1950–1951, when the state had to resort to force. On the other hand, when a revolt occurred within the armed forces in September 1951, the CGT was able quickly to call some 50,000 demonstrators into the streets in support of Peron.

13. Labor owes to the Perons its present improved social status, including such benefits as low-cost housing, schools, clinics, and hospitals. Senora de Peron has not only functioned as party manager of labor, but has also assumed the role of inspirational leader of the labor movement, appealing especially to the depressed masses, the *descamisados*. Her incapacitation would probably precipitate a disruptive struggle for power within the CGT. It would also tend to dissipate the effectiveness of the *descamisados* as a political force. No alternative leader in sight could sustain the fervor which she has been able to arouse.

14. Even if Senora de Peron should survive, however, labor's consciousness of political power and the ambitions of labor leaders would render uncertain labor's faithful adherence to Peron in the face of a prolonged deterioration of the economy. Already Senora de Peron's control of the CGT is meeting some opposition from certain leaders of the CGT who are concerned more with appeasing the labor rank and file than with following Senora de Peron's directives. These leaders and insurgent elements, including Communists and Socialists, in major CGT unions, are driving for independent power and greater privileges for labor. Were the CGT freer of official control, Marxist influences would probably take the lead in a militant trade union policy and would represent a strong force for extremist solutions in general.

15. Politically, organized Communism comprises two groups: the official party (estimated to number 35,000) and a small group of dissident Communists under the leadership of Rodolfo Puiggros that split from the official party after 1946 believing that they could better secure their own objectives in cooperation with rather than in opposition to Peron. Peron is apparently trying to use the dissident group as a bait to oppositionists of the left, especially in the labor movement, to throw in their lot with Peronism. The "dissident" group in turn maintains advisory relations with Peron, although the precise extent of their influence cannot be determined with accuracy on the basis of existing evidence. There is also little information regarding the ultimate objectives of this group, nor are there conclusive indications of Moscow's attitude towards it. The official party, although still legal, has been subject to police surveillance and harassment since 1948 and has lost voting strength so that it polled only 2 percent of the total Argentine vote in 1951.[4] It has probably, nonetheless, maintained a hard core of membership among workers, students, and intellectuals. Communism's most important potential lies in the labor movement. It has retained influence with labor and its proposed "national liberation front" policy

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[4] Reference is to the Argentine national elections, held on Nov. 11, 1951, in which President Perón was reelected for another term.

has many parallels with the Peronista program. This means that prolonged political and economic deterioration might permit the rapid growth of Communist strength and influence in Argentina.

16. The opposition to Peron comes mainly from the professional, commercial, industrial, and large landholding interests among the middle and upper classes that ruled Argentina before 1943. Its political effectiveness, however, has been sharply curtailed by disunity and by the Peron regime's extensive police and expropriation powers. The Conservative Party, for all practical purposes, no longer exists and the liberal Unión Cívica Radical (UCR) is almost hopelessly split into two factions. Although the UCR polled one-third of the total vote cast in 1951, this vote undoubtedly included a considerable number of protest votes against Peron's authoritarian controls and Senora de Peron rather than against other aspects of the Peronist Revolution. The Socialist Party is also rent by factionalism and is not represented in the national government. The old political parties are discredited by their past records and appear unable to challenge Peron's hold on his mass labor support under present conditions. Even if Peron's opposition were not legally forbidden to form a political alliance, it is extremely doubtful that it could unite against the Administration.

17. The Roman Catholic Church, as represented by its hierarchy, is an important political force whose position is approximately nonpartisan. This position contrasts with earlier evidences of an understanding with Peronism. It appears that cooperation between the Church and Peronism has declined, largely as a result of the divers activities of Senora de Peron and of her Social Aid Foundation. If the regime moves farther left, the influence of the Church may be turned against the Perons. An open break with the Administration, however, should not be expected except under the most extreme circumstances.

18. The armed forces of Argentina (the present strength of which is approximately 135,000 men, second only to Brazil in Latin America) played an active part in bringing Peron to power. Subsequently, however, the Peron's courting of labor groups aroused the opposition of many officers, who came principally from the middle class. In 1945 and again in 1951, elements of the armed forces openly opposed the government, but these efforts resulted only in purges and reorganizations reducing the armed forces' political influence. Plotting to overthrow the regime continues among purged officers and others as yet unpurged may be implicated, but these plots are unlikely to prove effective unless and until circumstances arise which would cause the armed forces to act in unison with substantial civilian political support.

19. Nevertheless, the armed forces probably retain sufficient strength and cohesion to be the decisive factor in any open struggle for power in Argentina. In such circumstances they would be most recep-

tive to appeals from the middle class elements which have opposed Peron, but they might align themselves with the more moderate elements of the Peronist Party and some of the more independent labor leaders, particularly if Peron himself had been eliminated. If assured of some popular support the armed forces would probably put down by force any attempted coup by the extreme left wing of the CGT or by any group under pro-Communist leadership, but could probably do so only after serious civil strife.

20. In the balance of political forces, the lives of the Perons play an important part. The assassination of Peron is always a possibility and there are numerous reports of revolutionary plots with that objective. Moreover, Senora de Peron is seriously ill and may not survive to the end of 1952.

Present Argentine Foreign Policy and Influence

21. In pursuing Peron's "Third Position" foreign policy Argentina has engaged in intensive anti-US propaganda throughout Latin America, some of which parallels Communist themes. This propaganda is particularly sensitive to US actions. Its intensity seems also to vary generally with domestic pressures in Argentina. It has increased noticeably in recent months.

22. In the Organization of American States, Argentina has at times adopted positions antagonistic towards the US; in the UN Argentina has abstained with increasing frequency on East–West issues. Argentina has ratified the Rio Treaty, but Peron has declared that no Argentine soldier would be sent to fight outside of Argentina. Argentine propaganda, which originally supported US–UN action in Korea, has become highly critical of US–UN policies in that area. It has also applauded Mexico's refusal to sign a military assistance agreement with the US. Since the abortive armed forces revolt of September 1951 the regime has been markedly cool toward any form of military cooperation with the US, an attitude which it has enforced upon individual Argentine officers. Pursuant to this policy it has allowed the contract of the US Air Force mission[5] in Argentina to lapse without renewal, and has indicated informally that the US Army mission contract[6] will likewise be permitted to lapse on its expiration date in October 1952.

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[5] Reference is to the exchange of notes, signed at Washington, June 23 and Sept. 2, 1943, and entered into force on the latter date, extending and amending the agreement of June 29, 1940, providing for a U.S. military aviation mission to Argentina; for text of the notes, see Department of State Executive Agreement Series (EAS) No. 340, or 57 Stat. (pt. 2) 1068. The agreement expired on June 29, 1951.

[6] Reference is to the agreement providing for the services of a U.S. military advisory mission to Argentina, signed at Washington, Oct. 6, 1948, and entered into force on the same date; for text, see TIAS No. 1813, or 62 Stat. (pt. 3) 2808. The agreement expired on Oct. 6, 1952

23. The most conspicuous manifestation of Peron's efforts to project the influence of Peronism throughout Latin America is the activity of Argentine labor attachés, who have spent large sums of money in their endeavor to create a Peronist labor confederation to rival both the Communist Latin American Confederation of Labor (CTAL) and the anti-Communist Inter-American Regional Organization of Workers (ORIT). These Argentine efforts extend throughout Latin America. They have not as yet produced significant results, but they have caused apprehension in certain Latin American governments.

24. Moreover, Peron has seized upon the dissatisfaction of Latin American governments and industrial interests with the prices obtainable from the US for strategic materials to agitate for the creation of a bloc to exact higher prices. This potentially effective line, although of general application, is addressed primarily to neighboring states, particularly Chile (copper) and Bolivia (tin).

25. In pursuance of Argentina's long-standing ambitions for preeminence in Latin America, Peron has capitalized upon recent unsettled political conditions in the area. He has given propaganda and diplomatic support to the National Revolutionary Movement (MNR) which recently came to power in Bolivia. As a political organization and movement the MNR antedates Peronism, but some of its policies and techniques are similar to Peron's and there have been personal ties between MNR members and members of the Peronist government ever since 1944. There are also evidences of Argentine support for Latin American presidential candidates such as Ibañez in Chile. Thus far, however, established national and labor leadership in Latin America has generally resisted Peronist influences and pressures.

Present Economic Situation

26. The principal immediate cause of political uncertainty in Argentina is an economic deterioration which stems largely from Peronist policies favoring forced industrialization and costly social welfare programs at the expense of agriculture. Although the relative role of industry in the Argentine economy has increased, productivity per worker has declined. The purchase of foreign-owned utilities and other enterprises has depleted government holdings of foreign exchange and has also saddled the government with a source of perennial deficits. The internal debt of Argentina has increased two and a half times since 1945, largely as a result of expenditures for industrialization. In contrast to Peron's goal of making Argentina for the first time a creditor nation, the year 1951 produced the largest trade deficit in Argentina's history. As a result gold and exchange reserves declined 30 percent during the year while the cost of living rose 50 percent.

27. This deteriorating situation has been brought to a head by severe droughts during the 1949–1950 and 1951–1952 crop seasons. As a result exports will be sharply reduced during 1952: no wheat will be available for shipment from the current crop as compared to the prewar annual average of 4 million tons; corn exports will probably be about one-sixth prewar averages, and meat export will probably be 40 percent of the 1934–1938 average.

28. The scarcity of consumer goods, caused by the shortage of locally produced foodstuffs and lack of exports to pay for imports, is of great political importance as it will be felt by the Argentine masses who are unaccustomed to austerity. The need for austerity was recognized by the announcement of an Economic Plan for 1952[7] curtailing domestic consumption and calling for increased production and saving. Subsidies on consumer goods were to be eliminated and increased prices given agricultural producers in a determined effort to increase the 1952–1953 harvest.

Probable Internal Developments

29. Until November, when the new grain crop can be accurately assessed, Peron will probably be able to cope with his economic difficulties. If crop prospects are then good, credit can be obtained and the pinch on consumer goods and foreign exchange relieved. Under these circumstances, the regime will probably continue in power, whether or not Senora de Peron survives.

30. If the prospects for the 1952–1953 grain crop are only average, Peron will probably resort to political maneuver. If Senora de Peron is alive and active, this maneuvering would probably consist of added concessions to labor. If Peron is alone, he might obtain new support among the moderates. In either case, the chances for the survival of the regime would be fairly good.

31. Another serious drought in 1952–1953 would so intensify the current economic deterioration and would impose such a strain on the Peronist labor organization that the regime would be seriously threatened. If Senora de Peron were no longer a factor in the situation, Peron himself would probably attempt to come to terms with the moderates in the armed forces and the Peronist Party and even in the opposition. If Senora de Peron were still active, however, her influence would probably lead him to seek to placate organized labor, hoping through its continued support to dominate the situation. A bitter-end struggle would then ensue, with the prospect of increasing pro-Communist influence in the government. At some indeterminate point in

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[7] Documentation relating to President Perón's Second Five-Year Plan (1953–1957), approved in late December 1952, is in Department of State file 835.00 for 1952 and 1953.

this development the armed forces and the moderates would be likely to attempt to overthrow the regime.

32. If, before this stage has been reached, both Perons were to be eliminated from the situation, a scramble for the succession would ensue. In these circumstances internal dissension would probably reduce the effectiveness of the CGT as a political force and the armed forces would almost certainly prove to be the best organized and most effective political force in Argentina. The armed forces might combine with the moderate Peronists or with the middle class opposition to form a government, or they might establish a military junta on a caretaker basis. It is possible that the left wing of the Peronist Party and the CGT, with pro-Communist leadership, might attempt to seize power. In that case the armed forces would almost certainly endeavor to suppress the attempt and probably would be able to do so, though perhaps only after a protracted struggle.

Effect of Probable Internal Developments on Argentine Foreign Policy and Orientation

33. The international attitude of Argentina in the period up to November 1952 is likely to be increasingly marked by jingoism to divert attention from domestic problems. Anti-US propaganda, especially through the activities of labor attachés, will be intensified with particular emphasis against US defense efforts. It is likely that Peron will seek closer economic ties with the USSR and its Satellites in an effort to fill some of the gaps in Argentine trade with Western Nations.

34. If Peron remains in power after November, his basic foreign policy will continue unchanged. If the economic situation improves, or if Peron seeks alliance with moderate elements, his anti-US propaganda may be toned down. On the other hand, if the economic situation continues to deteriorate and Peron comes to depend increasingly on the support of leftist labor and pro-Communist elements, there would be a concomitant increase in the intensity of his anti-US propaganda.

35. If Peron were eliminated, but the present Peronist groups remained in power under a more moderate leadership, the regime would be more amenable to conciliation with the US. The same tendency would be stronger under a government centered on the armed forces, and Peronism as an exportable ideology would certainly be deemphasized. However, in neither case would it be likely that Argentina would basically modify its "Third Position" policy or cease its efforts to promote Argentine influence in Latin America.

611.35/6–2352

Memorandum of Conversation, by Henry Dearborn of the Office of South American Affairs

TOP SECRET [WASHINGTON,] June 23, 1952.

Subject: US Policy toward Argentina

Participants: Assistant Secretary Miller
Ambassador Nufer
ARA—Mr. Mann
Mr. Spalding[1]
Mr. Fishburn[2]
OSA—Mr. Atwood
Mr. Bennett
Mr. Randolph[3]
Mr. Dearborn

A meeting comprised of the above persons was held in Mr. Miller's office today on the subject of US relations with Argentina. The purpose of the meeting was to discuss the points listed on pages 7 and 8[4] of Ambassador Bunker's memorandum of March 11, 1952, entitled "Suggestions for Argentine Policy" so that Ambassador Nufer might have the benefit of the most recent views of ARA prior to his departure for Buenos Aires.

Point 1. The unanimous opinion of those present was that US officials should not engage in any attacks on the Peron regime. On the other hand they may and should take advantage of every opportunity to offset anti-US Peronista propaganda. In this connection, however, it was brought out that most Peronista charges are similar to charges made against the US by unfriendly elements in other LA countries and that the problem is one which the US has with all of these unfavorable groups and not with Argentina alone. Mr. Miller emphasized that we should not let the tail wag the dog: we should not allow our concern over Argentina to dominate our whole hemisphere policy. This would be like a parent permitting his every action to be determined by a naughty child. Mr. Mann suggested that the Bureau should initiate action toward getting the US view across to persons strategically situated in LA so that much of the misinformation circulating from Argentina and other sources might be counteracted. An example which Mr. Mann gave was that the Chileans were not informed that the US produces large quantities of copper and of other facts related to this important item. He recalled an opinion of the Ecuadoran Chargé d'Affaires, Dr. Moscoso,[5] that the US should make a special effort to establish working contacts with 50 important LA newspaper editors. Mr. Mann suggested that we should work at high and low diplomatic levels to correct misinformation about the US so that OAR would have a better understanding of our position. All present agreed and Mr. Miller asked Mr. Mann, together with MID and OSA, to work on a plan of implementation.

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[1] Hobart A. Spalding, Intelligence Adviser.

[2] John T. Fishburn, Labor Adviser.

[3] Archibald R. Randolph, Officer in Charge of River Plate Affairs.

[4] Reference is to part VI of Ambassador Bunker's memorandum of Mar. 11; see p. 404.

[5] Alfonso Moscoso.

. . . .

Point 2. Insofar as this point could be implemented within the framework of the commentary on Point 1, it was approved. There should be no overt activity toward inducing other countries to adopt measures to oppose Argentine penetration.

Point 3. There was agreement in general with this point but there was no detailed discussion of it.

Point 4. The unanimous opinion of those present was that there was not much that could be done through the US trade union movement and the ORIT that was not already being done.

Point 5. Point 5 received considerable discussion. All present agreed that under present conditions Ambassador Bunker's relationship with President Peron had been the proper attitude. It was not believed that the time had come for us to take the initiative in attempting to bring about closer relations between Peron and the Ambassador. Mr. Miller noted that every attempt at an understanding with Peron had failed and said that he was convinced that Peron would settle for nothing less than a price we would not pay—namely, US official public approval of his regime and all its trappings. Mr. Miller recalled that Peron had said as much to him in February 1950.[6] Mr. Mann believed that there was no likelihood of any understanding with Peron until such time as the latter might indicate on his own initiative that he desired to be cooperative—and Mr. Mann was not optimistic about this eventuality. It was the view of the meeting that the Ambassador should be prepared to see Peron when the latter desired it but should take no step on his own part to bring about a closer relationship than existed during Ambassador Bunker's tenure. On the other hand, friendly relations with officials of the Argentine Government would fall wholly within present policy and it would be perfectly proper to visit them and to invite them to the Embassy.

Point 6. This point was considered with Point 5.

Point 7. It was believed by those present that while it serves Peron's purpose to attack the US, there is little likelihood that we shall be able to shift his attack from the US to communism. Mr. Miller remarked that he thought we had little chance of changing the Third Position and that in his opinion Peron would continue to attack both us and the Commies.

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[6] Mr. Miller visited Argentina, Feb. 19–24, 1950; for documentation concerning his trip and his discussions with President Perón, see *Foreign Relations*, 1950, vol. II, pp. 691 ff.

Point 8. Mr. Miller suggested that an instruction be sent to the field to serve as guidance for our Missions on problems likely to arise regarding Argentina. Mr. Dearborn said that such an instruction[7] was circulating among officers in ARA and that it would probably reach his desk in a day or two.

Point 9. Ambassador Nufer has been briefed on this point.

Following the discussion of the nine points, Ambassador Nufer said he would like to know what decision had been made on whether certain economic sanctions should be secretly applied to Argentina. The prevailing opinion was that there should be no sanctions of this sort. It was agreed that the US would continue to give Argentina routine treatment on her requests and that no special consideration would be allowed in matters of priorities or export licenses.

In conclusion Mr. Miller emphasized that our policy was not frozen and that he would be pleased to review it at any time the Ambassador might wish to make a recommendation to this effect.

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[7] Not identified, but presumably a reference to the instruction dated Aug. 26, 1952, p. 423.

Miller files, lot 53 D 26, "Argentina"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Chargé in Argentina (Mallory)

SECRET

[WASHINGTON,] July 15, 1952.

DEAR LES: I got your letter of June 19[1] just before I left for Rio[2] and just in time to show it to Al Nufer. I won't try to comment on it in detail except to say that this kind of correspondence is extremely useful to us all up here. I haven't seen Tuco Paz since I have gotten back but I hope to catch up with him shortly and will let you know anything that he spills.

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[1] Attached to the source text, but not printed. In the letter Mr. Mallory commented on the recent intensification of the anti-American campaign in Argentina and the declining health of Evita Perón, and he speculated on possible political developments in Argentina in the event she should die.

[2] Mr. Miller met Secretary Acheson in Recife, Brazil, on July 2, 1952, and accompanied him to Rio de Janeiro for a state visit which lasted a week. The Secretary's trip to Brazil was part of a tour of several countries, taken between June 22 and July 8. For additional documentation on the Secretary's trip to Brazil, see pp. 586 ff.

When Al gets to Buenos Aires, he can give you pretty much our thinking up here on the subject of U.S.-Argentine relations. We had numerous bull sessions with him before he left and I do not believe that we came up with anything startling at all. Incidentally we did not feel that Al should stay in Rio since it seemed to us to be conspicuous and also we felt that it was very risky to plan our relations with Argentina upon the uncertain contingency of Evita's death. If they wish to snub him they will do so whenever he arrives and whatever the circumstances are. However, I should think it extremely unlikely that Remorino being such a close personal friend of Al's should go in for this kind of petty dealing.

I believe the main difference between the thinking of the Embassy and ourselves about our aproach to Argentine relations is over the Embassy's feeling that we should make a direct approach to Peron. It seems to me that we have had it as far as these tactics are concerned and that they have not paid off. Rather it seems to me that the best approach would be for Al to cultivate quietly his already good relations with Remorino. Insofar as Peron is concerned, you will recall the completely fruitless mission of George Messersmith last year[3] who had every possible advantage, namely, previous friendship with Peron, an entirely unofficial mission, and the complete confidence of his Government. Yet though Uncle George was able to have many hours with Peron, he was unable to change him in the slightest. It would of course be nice to dissuade Peron of his erroneous views about the U.S. but I think that it is one thing to talk to him and another thing to change his thinking. I think the only way that there will ever be any improvement in our relations with Argentina is for the Argentines to come to the conclusion that they must take some responsibility for them themselves. When they wake up to the fact that their anti-American campaign, no matter how long sustained, is not going to make us lose our nerve, they may reconsider their position.

Unfortunately, as I wrote to Ellsworth Bunker some months ago, the basic difficulty is that what Peron wants from us is something that we are unable to deliver to them, namely, an expression of our approval of him, his wife, and all of their works including *justicialismo*, the CGT and even their anti-American propaganda. When he talks about "resolving all of his problems with the U.S." this is what he means. In other words, like the Russians he is perfectly prepared to be buddies with us on his terms.

Naturally there may be some change in the situation although I have given up speculating on what may happen if Evita dies. We must be prepared to re-examine our attitude towards Argentina at every point and we should be flexible enough to adjust to any change in the situation down there. However, things being as they now are it seems to me, exasperating and frustrating as it may be, our only course is the one that we have been pursuing. We must during this period avoid to the extent possible any hostile act and, as I told Tuco Paz in regard to the activities of his Labor Attaché, we must do everything possible to avoid getting into an inflexible position. We should exploit those personal friendships that any of us have, always of course in a dignified and prudent manner. It does seem to me though that it is up to them and not to us to take the lead in any change of attitude. We have done it too many times in the past without success.

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[3] For information on this subject, see despatch 1184, Feb. 13, 1951, *Foreign Relations*, 1951, vol. II, p. 1079.

With kindest regards,

Sincerely yours, EDWARD G. MILLER, JR.

735.00/8–2652 : Instruction

The Department of State to Diplomatic Offices in the American Republics [1]

SECRET WASHINGTON, August 26, 1952.

PROPAGANDA CAMPAIGN OF THE ARGENTINE GOVERNMENT

The Secretary of State informs the officers in charge that the problem posed by the hostile propaganda disseminated in Latin America and certain extra-hemisphere countries by official and semi-official Argentine information media is the subject of continuing study in the Department. One effect of the increasingly provocative character of this anti-United States campaign has been to rouse varying degrees of interest in third countries with regard to this Government's possible reaction. It may be useful, therefore, to outline in general terms the attitudes which we can constructively express towards Peronista propaganda, and some of the considerations that shape them.

For the past year and a half the Department has pursued a policy of strict correctness towards Argentina in the face of an ever increasing barrage of Peronista propaganda attacks. It was known that the Peron Government for its own political purposes desired the United States to counter attack, and it has been the Department's policy not to be drawn into a polemical exchange.

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[1] Drafted by Katherine Keany of the Bureau of Inter-American Affairs; cleared with the Bureau and the Office of South American Affairs.

In the present conditions of political and economic strain that obtain in Argentina, there is a considerable likelihood that any form of open retaliation on the part of the United States would be seized upon as the excuse for action that might so affect relations between the United States and Argentina as to precipitate the major problem of a recognized intra-hemisphere schism. It is also likely that open retaliation on our part would strengthen the hand of Argentine extremists.

There is, of course, a possibility that the Peronistas may resort to such action without any outside stimulus, citing some wholly imaginary pretext. Nevertheless, it seems clear that the United States would have little to gain, and much to lose, in supplying an excuse.

Evidence from nearly every other Latin American country indicates that the literate, knowledgeable people know how to appraise Argentine propaganda. It is reasonable to hope that this will create a body of opinion which, if not in itself a satisfactory defense, will lay a foundation for whatever countermeasures might become expedient. The attitude of the United States and of its representatives abroad can help or hinder this development.

1. It should be our objective, in contact with the nationals of other Latin American countries, to: (a) Underline, by the marked contrast of our own demeanor, the gratuitous aggressiveness of Peronista propaganda; and (b) Promote consciousness of the areas of difference between the aims and interests of the Peron Government and those of the Continent as a whole.

2. We should focus attention on the phenomenon of Peronista propaganda rather than on the content of its attacks. As these, almost without exception are not peculiar to Peronista sources, they must be dealt with, not in this particular context, but as part of the larger problem of Communist-nationalist distortion.

3. We should neither be drawn into betraying anger over the Peronista campaign, nor should we scornfully dismiss the whole subject: the first of these reactions would place us in the eyes of observers in the position of a frustrated second party to a "cold war"; the second might encourage others to take the Peronista drive lightly. Rather, it should be our aim to disarm the half-malicious interest that sometimes underlies the condolences of onlookers, and to induce Latin Americans to go much farther than we can in repudiating Peronista methods and calumnies against the United States.

4. A long-standing resentment of Argentines predisposes many Latin Americans to criticism of Argentine policies. However, it would be unwise to play upon that resentment by joining in detraction of the Argentine people or of the country itself; first, because it is not our purpose to encourage cleavages among the peoples of the hemisphere, and secondly, because that resentment in many cases is complicated by

an underlying admiration of Argentina which would assert itself in reaction to American criticism. Furthermore, there is a well-known tendency of the Latin American countries to go to the support of any one of them unfavorably treated by the United States.

5. We should be extremely cautious in imputing Communist orientation to the Peron Government on the evidence of its propaganda. While the content and apparent strategy of its anti-United States attacks are to us highly suggestive of Communist influence, it would not be good tactics for United States officials to make this charge. This does not mean that we should not on appropriate occasions comment privately on Peronista furtherance of the Communist line or the appeal to Communist sources by Peronista publications; but for the present we should not emphasize this theme or place any final interpretation on it.

We wish to avoid any overt or concerted response to anti-American propaganda by Argentina. However, as circumstances permit and particularly if other diplomatic officials should initiate a discussion of our attitude towards Argentina, our diplomatic representatives abroad should in private conversation develop any or all of the following points:

1. We have no fight with the people of Argentina. We have always esteemed the contribution that the Argentines could make to the progress and welfare of the American community, and hoped for more whole-hearted participation from them. Geographically Argentina is one of the most isolated countries in the world and its self-sufficiency in food has intensified the effect of its physical position. It has not, like most countries, been forced to learn how to live with others. Thus, for example, the Peron Government does not appear to value the concept of cooperation among equals or to be willing to accept a share of the common responsibility for safeguarding the Americas.

While the Peronistas usually object to any cooperative project undertaken by others, they never seem to have anything genuine to put in its place. Back in 1948 they talked of aiding other countries in economic development, sent Senator Molinari around the continent as a Special Ambassador for Trade Promotion, and announced plans for a Cuban-Argentine bank of commerce—but nothing has come of this. Recently they propagandized in favor of a Latin American trading bloc, to handle sales to the large consumer countries; but as they now have virtually no surpluses for export, that proposal cannot be serious—unless they think of marketing other peoples' products. Argentina is, in fact, much less important economically, politically and militarily than her ego permits her to believe, and it would be useful for this idea to have more general currency. Any comment on the subject should subtly point out the ridiculousness of some of Argentina's bombastic claims.

2. We believe that most Argentines are unaware of the external activities of Peron's propaganda machine, and we should be reluctant to

see the entire nation penalized for the actions of a government that makes policy in so arbitrary a manner.

3. A very serious aspect of Peronista propaganda is its attack upon truth.

One phase of this attack is the constant effort to discredit journalists and the free press; the other is the attempt to poison the sources of information by such measures as subsidization of the unscrupulous news agency, *Agencia Latina*, falsification of datelines and misrepresentation of news sources in the Government-controlled press, and publication within Argentina of wholly false news which is then disseminated throughout the continent by press and radio. Such practices, which threaten to discredit and undermine the ethics of journalism, are a more radical threat to freedom of information than is censorship or persecution of newspapermen, and they reinforce upon our own shores the attack waged from behind the Iron Curtain upon the great Western institution of the free press. It behooves free men—and especially publishers and journalists, since their survival is directly involved—to defend the bases of freedom of information by repudiating falsified news and exposing its purveyors.

4. As to why the Peron Government should make a systematic practice of methods so out of keeping with the traditions and culture of the nation, that is of course a matter of speculation. However, as is common knowledge, the economic life of Argentina has deteriorated to an appalling extent and it obviously must be increasingly difficult to prevent the electorate from awakening to their real position.

Hence, to preserve the illusion of Peronista success, it becomes necessary to elaborate the machinery of fiction, carrying it beyond the confines of domestic press and radio. This explanation would also account, perhaps, for the hysterical tone of the propaganda and for the huge expenditure upon international meetings at Buenos Aires and shows of all sorts considered likely to give the people an impression of triumph and dynamism. The external policy of obfuscation may have the same motivation as the repeated "discovery" of "foreign plots", which—in theory at least—at once diverts public attention from genuine problems and provides the regime with a scapegoat.

5. The priority given the United States as the target of insult is apt to obscure the fact that Peronista propaganda is a problem for the countries it is penetrating. (It is not in the United States that Peron is setting himself up as the deliverer of the people, nor are American workers being organized by the Argentine labor attachés.) Reaction to the problem appears to be mounting in many parts of the continent: one government (Ecuador) recently declared the Argentine Ambassador *persona non grata* for intervening in internal affairs; another (Panama) has forced the withdrawal of the Labor Attaché; others have placed Argentine diplomats under surveillance; one of the unions that entered the new Peronista-sponsored labor confederation has withdrawn its affiliation because of interference in its local affairs. Editorial opinion in various countries indicates resentment over Peronista penetration through the CGT.

This instruction should be discussed with those officers who are most in contact with the public and, therefore, apt to encounter questions or comment on this subject.

It should be emphasized that the purpose of this instruction is to give the chiefs of mission, and such other officers as they may desire to indoctrinate, background material with which to deal with the Argentine problem in discussions on appropriate occasions with nationals of the country to which they are accredited and diplomatic colleagues. This instruction should, however, under no circumstances be construed as an incitement to our diplomatic establishments to take the initiative in any frontal attack on the Argentine Republic or his government. The matter should be treated as one of extreme delicacy where the utmost tact and discretion are required. Crusading fervor and heavyhandedness should be avoided at all costs. It would, for example, be far better if the subject could be discussed when others take the initiative in raising it. The judicious use of humor in dealing with the problem would probably contribute to the success of any efforts on our part.

611.35/2-553

The Ambassador in Argentina (Nufer) to the Department of State[1]

SECRET
No. 1003

BUENOS AIRES, February 5, 1953.

Subject: Conversation With President Peron

There is attached a memorandum of a conversation which I had with President Peron on February 3, 1953 at his request.

Our discussion of one hour and thirty-five minutes touched on various subjects which, in Peron's opinion, had contributed to tensions in U.S.-Argentine relations during "the past ten years". The burden of the President's remarks was that those tensions should come to an end.

It is difficult to say what motivated the President in taking this initiative. Perhaps he felt that Argentina's anti-U.S. campaign had overreached itself, and that the new administration in the United States affords him an opportunity to embark on a policy of closer relations with us. Whatever his motives, he impressed me as being genuinely desirous of seeking *rapprochement*.

I realize there are many obstacles in the way of improved Argentine-U.S. relations. Among them are the probability that the critical attitude of the U.S. press toward Argentina would not readily be modified (even assuming that Peron continues to restrain his own press), and the probable restiveness of Peron in the event his approach, unprecedented in recent years, is ignored by us. In the latter event, it would probably be some time before a similar overture by the Argentine Government could be expected.

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[1] This despatch and attached memorandum of conversation were drafted by Ambassador Nufer.

I therefore urge that this development be given careful consideration in formulating our Latin American policy. There can be no doubt that any appreciable improvement in U.S.-Argentine relations would contribute to hemispheric solidarity and strengthen the defense of the free world against communist aggression.

ALBERT F. NUFER

[Attachment]

MEMORANDUM OF CONVERSATION WITH PRESIDENT PERON

Late on Friday evening, January 30th, the Foreign Minister, Sr. Remorino, telephoned me to say that he had told the President of our talk on January 26 (see my memorandum of January 27, 1953[2]) and that the President had expressed a wish to see me on Tuesday, February 3. I told Remorino that I would be glad to call on the President and he said he had been asked to accompany me.

Peron received me Tuesday at 4 p.m. in his home on Avenida Libertador General San Martin. He was extremely affable, even more so than on the occasion of the presentation of my credentials. Our meeting, which lasted 95 minutes, was cordial throughout.

He reminded me that when I last saw him he had suggested that we get together for a heart-to-heart talk with "all our cards on the table". He had, he said, purposely delayed seeing me because he wanted me to have a chance to familiarize myself with the local scene, but he felt the time for the meeting had now come and he had, therefore, asked me to call.

I told the President that I welcomed the opportunity to have a chat with him inasmuch as over five months had elapsed since our last conversation. I said I felt it was especially opportune for me to have some indication of what was in his mind in view of the recent change of administration in the United States.

Peron thereupon launched into a lengthy dissertation on what he considered to be the main causes for the state of tension between our two countries which, he said, had now existed for about ten years.

He first dwelt upon Argentina's geographic position. He compared Argentina's position in the far south to that of Sweden in the far north which, he said, explained why both countries had for many years been traditionally neutral and isolationist. Being so far removed from the center of the conflict, the Argentine people had been inclined to view the two world wars with a certain detachment and had been strongly opposed to any participation therein. This explained Argentina's position with regard thereto and why it would be practically impossible, politically speaking, for Argentina to send troops to Korea. The United States itself, he added, had not entered World War I until after it had been in progress for three years, and its entry into World War II had been delayed for over two years even though the U.S. interests were deeply involved. He implied that it had taken us a long time to get away from isolationism, and that it would take Argentina even longer due to its remote geographic position.

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[2] The referenced memorandum of conversation was transmitted to the Department of State under cover of despatch 970, from Buenos Aires, dated Jan. 29, 1953, not printed (611.35/1–2953).

As might have been expected, Peron then took up the subject of Ambassador Braden.[3] Braden, he said, was mainly responsible for the friction which had so long existed between Argentina and the United States. His attitude here had been more like a member of the opposition party than an Ambassador of a friendly country. Peron said that he, nevertheless, owed Braden a debt of gratitude because Braden's attacks on his candidacy served to unite behind him the Argentine electorate, many of whom deeply resented the interference of a foreign diplomat in Argentina's domestic affairs. Even though Mr. Messersmith and the other ambassadors who succeeded Braden were men of tact and discretion who scrupulously refrained from interfering in the country's internal affairs, the bad effects of Mr. Braden's actions were never entirely erased from the minds of the people and the government of Argentina.

Another cause of discontent in Argentina had been, Peron said, the blocking of Argentine exchange balances and gold in the United States during World War II which, together with Britain's suspension of sterling convertibility, had at the time caused Argentina serious economic difficulties. When Argentina was finally able to avail itself of its holdings in the United States, in 1946–47, their purchasing power had decreased by almost 50%. (Peron made a similar statement in November, 1951—see despatch 896 of December 4, 1951,[4] entitled "Peron's Statement to Visiting Congressmen".)

He also mentioned the assurances allegedly given him by former Ambassador Bruce[5] that Argentina had nothing to worry about, since purchases under the Marshall Plan would take care of all its exportable surpluses. Argentina, he said, went to the extent of cancelling sales that had already been made to Russia and other countries, but Mr. Bruce's assurances never materialized. Fortunately, he added, export prices rose at about that time so that Argentina suffered no economic losses.

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[3] Spruille Braden, U.S. Ambassador to Argentina, 1945.

[4] Not printed (033.1100 CR/12–451).

[5] James Bruce, U.S. Ambassador to Argentina, 1947–1949.

As another reason for Argentina's attitude, Peron mentioned the Export-Import Bank's refusal last year to permit Argentina to apply the unused portion of the 125 million dollar credit (granted in 1950)[6] to the purchase in the United States of agricultural equipment and other capital goods.

I interrupted the President to say that I was familiar with this transaction having, as he knew, been a member of the Joint United States-Argentine Economic Commission which met in Washington during the latter part of 1949 and early part of 1950. I had also been in Washington when the Argentine request regarding the unused portion of the credit (about 28 million dollars) had been received and had discussed it with the Export-Import Bank. The bank's refusal, I said, did not reflect on Argentina's economic solvency, with regard to which the bank had a high regard. The fact was that under the terms of the agreement, the credit could be used only to cover dollar arrears owed U.S. exporters for shipments to Argentina made before the agreement was signed. It would not have been possible, therefore, to agree to Argentina's request without entering into an entirely new agreement and this, I said, was impracticable at the time in view of the state of public opinion in the United States as a result of the anti-U.S. propaganda which Argentina had unleashed.

The President also mentioned the visit to Argentina of Mr. Miller,[7] then Assistant Secretary for Latin American Affairs. He had hoped that Mr. Miller's visit would bring about an improvement in relations between the two countries, and in order to help bring this about he had granted a number of requests which Mr. Miller made. These included:

1) Settlement of the problems confronting the American meat packers in Argentina;
2) The transfer of the head office of Swift International (now known as International Packers) from Buenos Aires to the United States. He

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[6] Export-Import Bank Credit No. 477, authorized May 17, 1950.

[7] Mr. Miller visited Buenos Aires, Feb. 19–24, 1950; for text of despatch 355, from Buenos Aires, dated Mar. 1, 1950, reporting on the results of his visit, see *Foreign Relations*, 1950, vol. II, p. 696.

said this was against the advice of members of his Cabinet and had resulted in a loss to Argentina of "250 million dollars";

3) Permission for the entry of Braniff International Airways into Argentina;

4) Permission for the American motion picture companies to resume importation of their films; and

5) An improvement in the situation of the Standard Oil Company of New Jersey (ESSO).

All this, the President added, had been to no avail, inasmuch as the American press had continued attacking him, his wife and his government.

He then repeated all he had told me during our previous meeting[8] about how he refused for several years to permit Argentine newspapers to retaliate and that it was not until 1950, when pressure by Argentine newsmen became very strong that he authorized them to reply to attacks against him in the United States press. He admitted that Argentina had not limited itself to refuting anti-Argentine statements which appeared in the United States, but had taken the offensive on the theory that offense was often the best defense. In any event, he said, United States press attacks had shown no signs of abatement and this, together with Argentine attacks on the United States, had been largely responsible for maintaining the present unsatisfactory situation.*

At this point I told the President that I would like to speak very frankly. I showed him the article by Edward Tomlinson which appeared in the January 27 issue of *Look*, entitled "Peron's War on the United States". This article carried two of the more vicious anti-U.S. cartoons distributed throughout the Hemisphere by Argentine labor attachés. I told him that he could readily see why propaganda of the kind published in the local papers and distributed by Argentine labor attachés must inevitably lead to unfavorable articles in the United States press, including such articles as the one by Mr. Tomlinson.

I said one of the things about Argentine propaganda which had created considerable concern in the minds of the American people was its similarity to the communist line. As examples, I mentioned the articles by Josephine Baker which had been head-lined in all the local papers; the constant references to "Yankee Imperialism" and "Yankee Capitalism"; and the consistent efforts to drive a wedge between the United States and Latin America. Moreover, for every article in the local press attacking Communism there had been at least a dozen articles attacking the United States. It was only natural, therefore, that our people should wonder whether Argentina was really anti-Communist or whether it might not be playing Russia's game.

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[8] Apparent reference to the conversation between Ambassador Nufer and President Perón which took place on Aug. 14, 1952, when the Ambassador presented his credentials; a memorandum of that conversation was transmitted to the Department of State under cover of despatch 185, from Buenos Aires, dated Aug. 18, 1952, not printed (123 Nufer, Albert F./8–1852).

*See Addendum on Page 16. [Footnote in the source text. The addendum is printed below.]

The President reacted strongly to this. He said I doubtless knew that Argentina was strongly anti-Communist. There were in Argentina relatively few Communists and all of them were well known to the Government and under constant police surveillance. As a matter of fact, his Government not only had full records of all Communists in Argentina but also of those in other countries, including the United States. These records were at our disposition should we wish to use them.

I ventured to remark that there were Communists who were very close to the Argentine Government and mentioned the names of Puiggros and Libenson[9] (so-called "dissident Communists" who have been closely identified with the Argentine Government). Peron replied that they were *Comunistas domesticados*. "We use them" he said "for our purpose", to which I replied that "leopards did not change their spots". Peron agreed but said that they would not dare to fall out of step with his government. There was, he added, no real threat of Communism in Argentina but Communism was a very real menace in other Latin American countries such as Guatemala, Bolivia, Brazil and even Cuba. "Those are the countries" he said "that are the Communist danger spots of the Hemisphere—not Argentina".

I next remarked that I had noticed with satisfaction a definite decline in anti-U.S. propaganda in the controlled Argentine press and that I had been gratified over the favorable press which President Eisenhower had received here.

Peron said that he had ordered the press to temper its attacks against the United States shortly after my arrival because he considered me to be a "man of good will". (As a matter of fact there was no substantial let-up in the anti-U.S. press campaign until after the elections at home.) He added that while the press was amenable to suggestions from him, he could not entirely control its editorial policy, as he was not a dictator. In any event he was glad that there had been such a marked improvement in its attitude; it was his considered judgment that the discontinuance of press attacks on both sides was a prerequisite to the establishment of the type of climate which would have to be created if our two countries were to forget the past and reach an understanding. He felt it was essential that the tension that had existed between our countries for a decade come to an end.

I suggested that if existing tensions could be eliminated it would help the cause of Hemispheric solidarity and added that I had seen the editorials in the January 30 issues of *Critica* and *La Prensa* which said that friction between our two countries had only helped the enemy (see Embtel 566, January 30, 1953[10]). I asked whether the "enemy" referred to was Communism, and the President said, "Naturally".

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[9] Rudolfo Puiggros and Isaac Libenson.

I asked the President whether Argentine labor attachés had also been instructed to discontinue anti-U.S. propaganda. These officials, as he knew, had been distributing such propaganda in Argentine Embassy envelopes and under diplomatic frank. He said, "Yes, we have put a stop to all that".

Remorino said at this point that Argentine labor attachés were really "laborers" with the mentality of "laborers", who had merely taken a course in a local school for labor attachés. Most of them were not particularly bright and had considered it their duty to circulate in the country to which they were accredited any and all propaganda material received from the Argentine General Confederation of Workers (CGT) regardless of its nature. He himself had been instrumental in bringing about the recall of several of them, including one in the United States. They had not acted under instructions from the Argentine Government. Peron interrupted to say that if his government had been responsible for the distribution of the propaganda, it would have used more subtle methods.

I said I was gratified to learn that Argentina had initiated action by instructing the press and the Argentine labor attachés to discontinue attacks on the United States. At this point Remorino said he hoped that the United States press would also cease its attacks on Argentina. I said that this would be up to the United States press over which, as he and the President knew only too well, our government had no control whatsoever. In fact, any attempt on its part to induce our newspapers to discontinue their attacks on Argentina might well have the opposite effect. I could only hope, I said, that the improvement in the press here would eventually be reflected in the press in the United States, and that they could not expect a change over night. The President said he realized this and that he would have to be patient.

Remorino interrupted to say that while he knew the press in the United States was free, it was also true that Tito,[11] a Communist dictator, and Franco,[12] a Fascist dictator, were receiving friendly treatment and that there was little or no adverse comment on the dictatorships of Somoza and Trujillo. He thought this indicated that our press was amenable to friendly suggestions and remarked that any action taken in this respect might be facilitated by the fact that the great majority of U.S. newspapers were well disposed toward President Eisenhower.

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[10] Not printed (611.35/1–3053).

[11] Marshal Josip Broz Tito, President of Yugoslavia.

[12] Generalissimo Francisco Franco y Bahamonde, Chief of State of Spain.

I replied that if there had been a change in the attitude of the U.S. press toward Tito and Franco the change had doubtless been a very gradual one and that I thought his statement to the effect that Franco's treatment in the United States press was a friendly one, at best somewhat exaggerated.

As an example of positive acts which might produce a favorable reaction in the U.S. press I mentioned Peron's recent statement to local Jewish leaders deploring Soviet anti-Semitism. Peron seemed pleased at my mention of this and I enquired why the full statement had not appeared in the Argentine press. He said that it had been published by the Jewish language papers. I remarked that their circulation must be very limited; whereupon he said the story had been given to the wire services. (The official release issued by the *Secretaria de Informaciones* had considerably tempered the force of the anti-Soviet remarks Peron made in the presence of the Jewish community leaders.)

I said that I had also noticed with interest the recent statements by Ambassador Paz and by the President himself with regard to foreign investments. I said that there was an investment in Argentina of some 400 million dollars in U.S. capital and that I was sure he would agree that it had made a very substantial contribution to the economic progress of the country.

The President said he was, of course, interested in attracting foreign capital but on terms that were equitable both to Argentina and to the investors. He said that Argentina wanted no more investments like the Smithfield Packing House which was established in 1911 with a capital of 1 million pounds sterling. Up to the time that Argentina purchased the plant, it had sent annual profits to England equal to its entire initial capital. His government, he added, was working on new regulations governing foreign capital investments, which he thought would be equitable to all concerned and which he hoped would have a stimulating effect on its inflow into the country.

Remorino next called my attention to the statements made by Secretary Dulles before the Senate Foreign Relations Committee and produced a copy of the *Congressional Record*. He said the President had been disturbed by the Secretary's remark that there was fascism in Argentina which was spreading its tentacles elsewhere, but that he was reserving judgment until he had had a better opportunity to observe developments in Washington.

Remorino said that he was a friend and admirer of Secretary Dulles and that he had written him a letter[13] in which he had refrained from any criticism of the Secretary's remark, but had asked him to look into the Argentine situation objectively and after doing so to "let his conscience be his guide".

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[13] Not found in Department of State files.

Remorino also referred to statements against Argentina attributed to Mr. Braden at a recent forum at Tulane University which he claimed were unusually derogatory and inflammatory. He said that these statements had not been published here at the express instructions of the President who felt they would needlessly exacerbate Argentine public opinion and make an understanding more difficult.

As the meeting was drawing to a close I enquired whether they had anything else in mind I could tell my government. Remorino replied that they were not in a position to give me a bill of particulars. The President, however, interrupted to say very emphatically that Argentina wanted nothing whatsoever from the United States and that his only purpose in speaking so frankly to me was to express his desire that the friction which had so long existed between our two countries finally come to an end.

The meeting broke up at 5:35 p. m., and Peron escorted Remorino and me to my car. Remorino, whom I dropped off at the hotel, appeared highly pleased over the conversation. In repeatedly expressing his satisfaction over the President's attitude, he implied that it was now up to me accurately to convey that attitude to my government.

ALBERT F. NUFER

Addendum

The President said that he had reason to believe that the United States Government had itself contributed to a propaganda campaign against Argentina. He had, he said, copies of receipts and other documents showing payments by Cultural or Information Officers of our Embassy in Mexico to Mexican publishers and editors covering such propaganda. I interrupted to say that his information was completely erroneous, as the activities of our Cultural and Information officers were always conducted in an open, straightforward manner such as those of the USIE here in Argentina.

Some time ago, the President added, he had sent an emissary to Chateaubriand, who owns a chain of newspapers in Rio, with a view toward inducing him to adopt a more favorable attitude toward Argentina. Chateaubriand told his emissary that if Argentina would pay him more than the seven million pesos he was now receiving from the United States Government, he might talk business. When I questioned the veracity of this report, Peron admitted that he himself had not been inclined to attach too much weight to it and had suspected that it might be an attempt on the part of Chateaubriand to obtain a subsidy from him.

A. F. NUFER

611.35/3–353:Telegram

The Secretary of State to the Embassy in Argentina [1]

SECRET WASHINGTON, March 3, 1953.

613. Department concurs your view that Peron's expression desire improve US relations, taken with his recent diminution propaganda attacks on US, creates situation more favorable for initiation of *rapprochement* than likely arise again for some time. Opportunity should not be lost by our failure to reply.

Following are immediate factors which in US view do impede friendlier relations between Argentina and US: 1) Peronista intensification Argentine neutralism through "third position"; 2) Peronista official and officially inspired propaganda attacks on US; 3) apprehension other Latin American countries (especially Argentina's neighbors) to degree which might affect their friendship US if US moved closer Argentina while Peron following present exaggerated policies; 4) Peronista actions against free press and radio; 5) official Government control Argentine labor.

Department believes no substantial degree *rapprochement* possible unlesss Peron willing and able make bona fide changes in points 1 and 2 above paragraph. Present implementation "third position" is aid to Soviets. Peron's attacks on US have been straight Commie line and even more helpful to Soviets than "third position". Modification these policies would proportionately diminish point 3 as obstacle. While points 4 and 5 are internal Argentine matters and US not in position insist changes as basis for official *rapprochement*, it is nevertheless foregone conclusion, while Peron pursues these policies, attacks from US press and labor to which he objects will continue. In this sense, cessation these attacks in Peron's hands.

Department shares your skepticism Peron's statement he wants nothing from US. Until we more aware his objectives, Department would prefer to keep discussions with him in realm generalities—welcoming his desire improve relations and emphasizing importance free world should not be weakened time of crisis by tensions and doubts among own members. Toward this end Department suggests you follow up your February 3 conversation Peron at earliest opportunity and address him along following line:

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[1] Drafted by Mr. Dearborn; cleared with the Bureau of Inter-American Affairs and in draft with Under Secretary Smith; and signed for the Secretary by Assistant Secretary Cabot.

> Government United States has welcomed your statement to me regarding your desire improvement in relations between our two countries. Essential that those of us with like interests and objectives should devote our utmost energies toward maintaining united front with which we may together face common dangers. Our common traditions of freedom and liberty and collective agreements we have ratified not only are insurance against our own eventual destruction but also offer less fortunate nations of world the strength and hope which they may need to survive. We cannot, however, deal effectively with our adversaries if among ourselves there is atmosphere tension and suspicion and unless each of our nations is inspired by ardent faith in rightness of our cause. Argentina and United States are both recognized leaders American community and nature their relationship each other has direct bearing on whether American republics shall be able fulfill their proper role defense free world. Is with these thoughts in mind, Mr. President, that my Government has noted with satisfaction your statement that you desire improved relations witht United States.

Having conveyed above message to Peron, Department desires you, if circumstances appear favorable, to seek on a strictly personal and informal basis to ascertain what specifically Peron has in mind respecting improvement in Argentine-American relations, and what steps he envisages to that end. In this connection you should of course bear in mind both the difficulties which will face us and him also in any effort to improve relations and importance of time element.

DULLES

611.35/3-553

Memorandum by the Under Secretary of State (Smith) to the President[1]

SECRET [WASHINGTON,] March 5, 1953.

Subject: Current Status of U.S.-Argentine Relations

Through various channels, President Peron has sent messages to the effect that Argentina's difficulties with the United States were due to the personalities and attitudes of officials of the previous administration. He professes to have a high personal regard for you and suggests that the time is now ripe for improving relations. Substantially the same statements were made by Peron to Ambassador Nufer with the request that the Department be informed officially.

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[1] The covering transmittal memorandum, which indicates that President Eisenhower requested this report concerning the current Argentine situation, is not printed. The report was drafted by Messrs. Smith, McWilliams, and Mann.

We want from Argentina: cessation of the Communist-line propaganda which, until modified recently, was being propagated throughout the hemisphere by the Argentine Government and labor elements which it controls; unequivocal opposition to Communism and the Soviet design. (Peron's announced policy is one of equal opposition to both US and USSR "imperialism".)

Peron probably wants from us: friendly and respectful attitude towards him and his regime by the press and organized labor in the US as well as military and economic aid. Unless he modifies his policies, it would be impossible for us to comply completely with his first desire, and substantial US aid would be opposed by elements in the United States and resented by Brazil, Peru, Uruguay and other Latin American countries which fear Argentina.

Peron may actually be willing to modify some of his policies to bring about an improvement in relations with the US. On the other hand, his professions of friendship may be simply a tactic in his plan to play off the US and the USSR against each other. Another possibility is that he may hope to obtain something from us without changing any of his policies. (A recent intelligence report[2] would support this last possibility.)

Peron's approach to us has been friendly, vague and general. We have instructed Ambassador Nufer to reply in the same friendly vein and to seek from Peron his opinion as to what the next step toward improving relations should be. Word has also reached him thru McCloy and others that the US is "willing" but that he must do something more to create a favorable atmosphere. He seems to like Nufer, and their next conversation may give a better lead.[3]

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[2] Reference uncertain.

[3] On Mar. 13, 1953, pursuant to instructions contained in the Department's telegram 613, *supra*, Ambassador Nufer met with President Perón to discuss further United States-Argentine relations. Ambassador Nufer's memorandum of their conversation was transmitted to the Department of State under cover of despatch 1165, from Buenos Aires, dated Mar. 16, 1953. The despatch reads in part as follows:

"As I had feared, I was unable to elicit from Peron what exactly he may have in mind in allegedly seeking a closer understanding with the United States. The statement that his bid for closer relations carries no price tag notwithstanding, I still feel that his move is inspired by some motive which he is not yet prepared to reveal. On the other hand, his statement that the establishment of a better atmosphere was a prerequisite to closer relations and that other developments would naturally follow once a better atmosphere prevailed seemingly indicates that he takes a realistic view of the problem.

"The question with which we are now confronted is—Where do we go from here? Before we try to answer this question, we may have to let some time go by to see whether Peron carries through on his promise to keep the local press here effectively under control in so far as anti-U.S. propaganda is concerned. We shall watch this carefully and will also be on the alert for any indications of a firmer stand on his part against communism." (611.35/3–1653)

Editorial Note

During the spring and summer of 1953, Ambassador Nufer had several conversations with President Perón concerning United States-Argentine relations.

On May 14, Ambassador Nufer and President Perón met for 1 hour and 45 minutes. They discussed, *inter alia*, certain references critical of the United States contained in President Perón's speech to the opening session of the Argentine Congress on May 1 and the Argentine Government's suspension of the licenses of the UP, AP, and INS press services to use local communications facilities. Ambassador Nufer's memorandum of their conversation, dated May 14 (transmitted to the Department of State under cover of despatch 1464, from Buenos Aires, dated May 18, 1953), records President Perón as having stated that his speech was designed for domestic consumption and also as having instructed Foreign Minister Remorino, who was present during the meeting, to have the restrictions against the news agencies rescinded. The despatch reads in part as follows:

> "I find it difficult at this point to judge the sincerity of Peron's remarks and of his assurances of his continued desire to reach an agreement with the United States. His conciliatory attitude is, of course, encouraging. It might indicate that he feels he went too far in his May 1 speech. I believe, however, that we will have to have a little more time to watch the trend of developments before attempting to arrive at any conclusions. One test of his sincerity will be the attitude of the controlled press; another and more immediate test will be whether his order to have the restrictions on the news agencies rescinded is carried out." (611.35/5–1853)

On July 3, Ambassador Nufer met again with President Perón. In the Ambassador's memorandum of their conversation, dated July 3 (transmitted to the Department of State under cover of despatch 13, from Buenos Aires, dated July 7, 1953), President Perón is recorded as having stated that he regretted the announcement that Ambassador Nufer would soon be replaced, and that he favored the entrance of "responsible" private investment capital into Argentina. He also promised that if the provincial administrations in Argentina would not pay for properties expropriated from the American and Foreign Power Company, the Federal Government would do so. (611.35/7–753)

On July 24, Ambassador Nufer and President Perón met a third time. In the Ambassador's memorandum of their conversation, dated July 24 (transmitted to the Department of State under cover of despatch 93, from Buenos Aires, dated July 31, 1953), President Perón is recorded as having stated that he intended to take vigorous action against Communists in Argentina and that he would cooperate with the Embassy to solve outstanding problems between the two countries, including those affecting American business firms already in or seeking to enter Argentina. The despatch reads in part as follows:

> "Over-all, I consider this interview with Perón to have been highly satisfactory and promising for future relations. However, I am sure the Department will readily perceive the need for the U.S. to make further gestures, following Dr. Eisenhower's visit here, to fortify the evidence of its willingness to meet Perón half-way and to reciprocate some of the actions taken by him so far as positive evidences of his desire for better relations." (611.35/7–3153)

120.220/6–1853

Memorandum by the Secretary of State to the President[1]

SECRET WASHINGTON, June 18, 1953.

Subject: Inclusion of Argentina in Visit of Dr. Milton Eisenhower[2] to South America.

Since May 15 President Peron has lifted official restrictions on the operations of American news agencies and has markedly diminished anti-American propaganda.

There is reason to believe that the incidents between April 15 and May 15 were fomented and used by the extreme nationalists and crypto-Communists in Peron's entourage to stop the gradual improvement in our relations with Argentina which had been developing since you took office. The steps taken by Peron are clearly the outcome of representations made by Ambassador Nufer and the quiet work of those of Peron's entourage who desire better relations with the United States.

The situation is still not satisfactory in that the congressional investigation[3] of American news agencies and unofficial pressure against them continue. Nevertheless, it would scarcely be even in their interests not to make the visit, and numerous other American interests have emphatically urged that Dr. Eisenhower's visit be made. Even some prominent newsmen favor it. It is significant that *Democracia*, the noisy Peronista mouthpiece controlled by the anti-American clique, has now reverted to the line of "sympathetic expectancy" of better relations with the United States.

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[1] Drafted by Mr. Cabot; delivered to the White House on June 18.

[2] Between June 23 and July 29, 1953, Dr. Milton Eisenhower visited the ten countries of South America at the request of President Eisenhower for the purpose of conducting a factfinding mission. Regarding his visit, see the editorial note, p. 196.

[3] By the Argentine Congress.

We feel that, from the viewpoint of our national interests, American interests in Argentina, and our relations both with Argentina and the other American republics, it is desirable that the visit to Argentina be made. While Peron may revert to anti-American diatribes, a visit, on the other hand, may afford a positive opportunity to clear up outstanding questions and thus may prove a definite step forward on the road to improved relations.[4]

J[OHN] F[OSTER] D[ULLES]

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[4] A handwritten note attached to the source text, initialed by Assistant to the Secretary O'Connor, dated June 18, indicated that President Eisenhower approved the proposed visit.

Dr. Milton Eisenhower visited Buenos Aires on July 18–19, 1953. An extensive account of his visit and related memoranda of conversation were transmitted to the Department of State under cover of despatch 56, from Buenos Aires, dated July 21, 1953, not printed (120.220/7–2153). For additional information, see Milton S. Eisenhower, *The Wine is Bitter: The United States and Latin America* (New York, 1963), pp. 64–66.

611.35/9–453

The Ambassador in Argentina (Nufer) to the Department of State[1]

SECRET

No. 211

BUENOS AIRES, September 4, 1953.

Subject: Conversation With President Perón

There is enclosed an account of my interview with President Perón on September 3, 1953. It will be noted that by far the most important part of this interview involves the presentation by President Perón of several matters with regard to which Argentina hopes it can have the assistance of the United States. We have, of course, during the entire process of contacts leading to an improvement of relations with Argentina, expected that at some time or other Perón would indicate certain concrete expectations of Argentina, in spite of his protestations to the contrary up to now. These have now been received, although not yet in detailed form so that the exact desires of Argentina are yet unclear.

Nevertheless, the subjects introduced by Perón appear to bear very careful scrutiny and analysis in the Department in terms of their potential advantage to us in Hemispheric defense, and in the opportunity to which they might lead us of developing the anti-communist disposition which Perón seems to reveal. It will be noted that some of these proposals have a marked potential for private capital attraction. Any government to government cooperation with respect to them, which presumably enters into Argentine thinking, might be utilized as a catalyst to this end. It might not be too much to imagine, in fact, that these proposals could lead to negotiations for the establishment of conditions here attractive for further private capital investment, coupled with agreements on military cooperation in defense against communism.

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[1] Drafted by the First Secretary of the Embassy Robert C. Martindale and Second Secretary of the Embassy Ernest V. Siracusa.

An interesting insight on the thinking that may now be going on in the Casa Rosada appears in a remark Ambassador Margueirat[2] (who was present at my interview with Peron) made to an officer of this Embassy: "Did you notice that all Peron's points were related to Hemispheric defense against Communism?"

While Perón's motivations may not be so completely altruistic as he himself presents them, they carry with them the possibility of aligning him formally with U.S. policy for defense against communist aggression.

ALBERT F. NUFER

[Enclosure]

MEETING OF AMBASSADOR NUFER WITH PRESIDENT PERÓN

SEPTEMBER 3, 1953[3]

I saw President Perón this morning at my request to present him with a personal letter[4] and a collection of trout flies from Dr. Milton Eisenhower and to take leave from him in view of my impending trip to Washington.[5] Our meeting, at which the Foreign Minister, Dr. Remorino, and the Chief of Ceremonial, Ambassador Margueirat, were present, lasted from 10:15 a.m. to 12 noon.

The President was delighted with the trout flies and asked me to translate Dr. Eisenhower's letter for him.

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[2] Raúl A. Margueirat.

[3] Drafted by Ambassador Nufer.

[4] No copy of the referenced letter was found in Department of State files. Subsequent to Dr. Eisenhower's visit to Buenos Aires, he exchanged a series of letters with President Perón; Dr. Eisenhower's letters, dated Aug. 3, 5, and Sept. 30, 1953, were transmitted to the Embassy at Buenos Aires for delivery to President Perón under cover, respectively, of instructions A–26, dated Aug. 6, 1953 (735.11/8–653), A–28, dated Aug. 11, 1953 (711.11 Ei/8–1153), and A–63, dated Oct. 1, 1953 (735.11/10–153). Copies of a later exchange of letters between the two men, dated June 27 and Aug. 4, 1954, are in Holland files, lot 52 D 295, "1954–1956."

[5] Ambassador Nufer departed Argentina on Sept. 10, 1953, for consultations in Washington and returned to Buenos Aires on Oct. 19.

He requested me to listen to a recording of an interview which he gave yesterday to the representative of the National Broadcasting Company, and which is to be televised in the United States. The President said that the interview had taken over twenty minutes and would have to be cut in order to bring it within the proposed ten minute limit. He asked for suggestions as to what parts of the interview might best be eliminated as of only marginal interest to the Amerian audience. After listening to the recording, he then offered to furnish me with a copy of the text so that I could go over it with my associates. He also instructed Sr. Apold,[6] *Sub-Secretario de Informaciones* to furnish me a copy and asked that we be good enough to let him have our ideas today if possible.

I then took up with the President certain items of interest to several local American enterprises. I requested a meeting with him on behalf of the American meat packers who are facing a difficult situation, and also discussed the American & Foreign Power Company's difficulties with the provincial authorities in Mendoza. The President agreed to see the meat packers on his return from Cordoba and promised to look into the problems of the American & Foreign Power Company; also to let me know whether the discussions looking toward the acquisition of the company's properties by the government—such negotiations having been suspended early in 1952 because of the then difficult local economic situation—might be resumed at this time.

I also mentioned the interest of Mr. Herman Metzger, head of the local ESSO branch, in meeting with him again to discuss further the possibility of ESSO cooperating in the development of Argentina's oil resources. The President agreed to see Mr. Metzger as soon as possible.[7]

I also mentioned the fact that several issues of the *New York Times* had been confiscated by the customs authorities during July and August, and Peron promised to take steps to prevent future incidents of this kind.

The desire of Panagra to invite six Argentine boys to visit the United States at its expense (as part of Panagra's twenty-fifth anniversary celebration) was also mentioned, and the President said he would designate the six youngsters before September 13, the date on which Panagra wishes to make the corresponding announcement.

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[6] Raúl A. Apold.

[7] Documents pertaining to negotiations between Argentine officials and representatives of U.S. oil companies are in file 835.2553 for late 1953 and 1954.

The President referred to the hearings now being held in Washington with regard to a possible increase in U.S. wool import duties. He asked me to express to my government his grave concern over the possibility the increase might affect carpet wool; if so, he said, it would deprive Argentina of one of its few remaining sources of dollar exchange which Argentina urgently needed to acquire certain American products indispensable for its economic well-being. I said it was my impression that carpet wool was on the free list but that I would telegraph[8] the Department immediately.

The President said that he would like to enlist our assistance in several other matters of great interest to his government. He prefaced his remarks by saying that although many people did not believe that there would be a third world war, he personally was convinced that such a war was inevitable; it was therefore imperative that every effort be made by the countries of the Western Hemisphere to utilize to the utmost the present breathing spell to prepare for such an emergency.

He was deeply concerned over the fact that Argentina was producing only about 45 percent of its oil requirements. This was all the more serious because of Argentina's commitments under the Hemisphere Defense Plan.[9] It was, he thought, vitally important that Argentina become self-sufficient in so far as its oil requirements were concerned in order that it might contribute effectively to the defense of the South Atlantic. An emergency program to bring this about was therefore needed.

The President was not clear just how he thought the United States could assist him in expediting the development of Argentina's oil resources, but I got the impression that he thought it was mainly a job for private U.S. capital. He said the problem, as far as Argentina was concerned, was largely political because YPF, despite its evident shortcomings, was strongly entrenched. There were, moreover, certain laws which he could not ignore and which made it impossible for him to turn over Argentina's oil resources to foreign enterprises. He thought, however, that some way could be found for foreign companies to cooperate with the Argentine Government in their exploration and exploitation. The President was somewhat vague on this point; he did say that it would not be possible to give the foreign companies title to the land, but that they would presumably have to operate under what he described as a *contrato de locación de obra* (project lease), and to agree to turn over part of their production to YPF. In any event, the President said something had to be done in the immediate future in view of the strategic importance of the matter to Hemispheric defense.

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[8] In telegram 138, from Buenos Aires, dated Sept. 3, 1953, Ambassador Nufer reported that President Perón had requested him to express the Argentine Government's "grave concern" with respect to the possibility of increased import duties on wool (411.356/9–353).

[9] Apparent reference to the General Military Plan for the Defense of the American Continent, approved by the Inter-American Defense Board, Nov. 15, 1951; for information, see the editorial note, *Foreign Relations*, 1951, vol. II, p. 1028.

The President then discussed the possibility of obtaining some assistance from us in connection with the proposed development of Argentina's shipyards and dry docks. The shipyards (*astilleros*) at Rio Santiago, he said, were already equipped for fairly large vessels, but additional equipment was needed not only for Rio Santiago but for the six dry docks now under construction in Tigre. These shipyards and dry docks, he said, would be of vital importance to the countries of the Western Hemisphere in the event of another world war. There were, he remarked, no other facilities in this part of the Hemisphere where large vessels could be overhauled and repaired. World War III, he said, would be characterized by an attempt on the part of our enemies to destroy the free world's industrial potential, and Argentina was outside of the range of Russian bombers.

The President then discussed the possibility of obtaining help from the United States in building a plant for the large-scale production of fighter planes, such as the Pulqui II which the Argentine Government has been constructing on an experimental basis. He said that such a plant would, as in the case of the shipyards and dry docks, be beyond the range of Russian bombers and would constitute an important contribution to Hemispheric defense. The plant he had in mind would be equipped to produce complete planes, including motors, etc., and in return for our assistance Argentina would agree to place the entire production thereof at our disposal in the event of an emergency.

The President also hoped the United States might find it possible to assist Argentina in the construction of a steel mill. Argentina was already producing ordnance and ammunition, including guided missiles, and was currently experimenting with guided torpedoes. It was likewise producing small amounts of recoilless guns. Production of all this material could be tremendously stepped up if Argentina had a modern integrated steel mill, and Argentina's contribution to the defense of the Hemisphere could thereby be immeasurably increased.

The President also discussed the need for greatly expediting the production of uranium ore and beryl. Argentina, he said, had large undeveloped uranium and beryl deposits but it needed technical help if large-scale production was to be forthcoming within any presently measurable period. Such production, he said, would be sold to the United States.

In connection with all projects he spoke of the need of assistance from the United States but at no time did he mention the possibility of public credits except indirectly when he remarked that if these projects could be carried out by private capital it would, of course, be preferable.

I told the President that while I was, of course, unable to venture an opinion on the questions he raised, I would be glad to make a memorandum of our conversation and submit it to my government for its consideration. I suggested, however, that it would be extremely helpful if he could let me have a brief memorandum on each of the subjects mentioned, giving me in more detailed form just what he had in mind and exactly what, in his opinion, the nature of our contribution to the several projects might consist of. The President promised that he would have his technical advisers furnish me with such memoranda before my departure for the United States.

When I took my leave Peron asked me to give President Eisenhower an "*abrazo*" from him. "Tell the President", he said, "that he is the senior General and that I will carry out his orders."

ALBERT F. NUFER

835.10/9–2353

Memorandum of Conversation, by James F. O'Connor, Jr. of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] September 23, 1953.

Subject: Call on Secretary by Ambassador Nufer.

Participants: The Secretary
Ambassador Albert F. Nufer
OSA—James F. O'Connor, Jr.

The Secretary asked Ambassador Nufer about Argentine developments. Ambassador Nufer described briefly the recent improvement in US-Argentine relations following Dr. Milton Eisenhower's visit to Buenos Aires.

The Secretary asked what Argentina wanted from the US. Ambassador Nufer replied that during the course of his call on President Perón prior to departing for the US, Perón had referred in undetailed fashion to the desirability of some US assistance—placing the matter on the basis of strategic military considerations—in connection with such projects as construction of a steel plant, expansion of naval shipyard facilities, and development of petroleum resources. Perón had intimated that at least this last was, however, a project for private capital.

The Secretary said that the policy of the Administration was to encourage foreign nations to look to private capital sources than to US public funds for financial assistance, since the US taxpayer had to foot the bill in the latter case. He stated that Argentina had been developed initially by British and US private capital and that it should logically continue to look to these sources.

Ambassador Nufer said that the Argentine interest would be in loan rather than grant aid, to which the Secretary replied that this was all the same from the point of view of raising taxes. The Secretary commented that there was a possibility that a new semi-official lending agency—in which private as well as public capital would participate—might be formed, and that such an institution, which would be in a position to make some "soft loans",[1] could be approached to furnish certain foreign financial assistance.

Ambassador Nufer pointed out that it was important to keep Argentina on our side in the interest of promoting hemispheric solidarity and having her firmly aligned with us in the fight against Communism.

The Secretary complimented Ambassador Nufer on the job which he was doing in Buenos Aires.

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[1] Loans repayable in local currency rather than in dollars.

835.10/9-2953

Memorandum of Conversation, by Henry Dearborn of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] September 29, 1953.

Subject: Meeting on Argentina between Ambassador Nufer and Officials of the Export-Import Bank

Participants: Maj. General Glen E. Edgerton, Managing Director, Eximbank
Mr. Hawthorne Arey, Assistant Director
Mr. Lynn U. Stambaugh, Deputy Director
Ambassador Albert F. Nufer
Mr. Rollin S. Atwood, Director, Office of South American Affairs
Mr. Henry Dearborn, Office of South American Affairs

Ambassador Nufer called on General Edgerton, Mr. Arey, Mr. Stambaugh and other officials of the Export-Import Bank this morning to discuss Argentina. It was soon evident from the conversation that the Bank officials principally desired to hear what Ambassador Nufer had to say with regard to the situation in Argentina and with regard to the State Department's attitude toward loan applications received by the Bank for projects in Argentina. Ambassador Nufer's principal purpose was to learn what the Bank's attitude was toward applications for loans to finance projects in Argentina.

Ambassador Nufer outlined the political and economic situation in Argentina. He then referred to some of the conversations which he had had recently with American businessmen and to the interest of these businessmen in Argentine projects. He said that in his opinion if the Export-Import Bank or some other institution did not assist American exporters in holding their own in the Argentine market the Germans and other Europeans would increasingly crowd the Americans out of the picture. This was to some extent already taking place. The Ambassador made it clear that in his view, as a result of markedly improved US-Argentine relations since Dr. Milton Eisenhower's visit to Buenos Aires last July, favorable consideration by the Bank of applications for loans to finance sound projects in Argentina was desirable. Mr. Atwood generally agreed with this view. He added, however, that the State Department did not believe that it should take the initiative in urging American businessmen to direct their attentions toward Argentina. On the other hand if American businessmen showed a definite interest in Argentina and themselves took the initiative in increasing their operations there, the Department woud certainly have no political objection to this trend of events and no objection to favorable action by the Export-Import Bank on loans to assist US private business operations in Argentina. However, Mr. Atwood stated that he thought the Department would not look with favor at this time and might well object to any loan to Argentina on a government-to-government basis.

The Bank's position as expressed by General Edgerton and Mr. Arey was somewhat as follows: The Bank was prepared to consider relatively small loan applications from exporters. The Bank would probably not favor financing a loan for any such tremendous project as the $150,000,000 steel mill desired by the Argentines. General Edgerton pointed out that the Bank had a limited fund with which to work and that it followed a policy of diversification of its operations so that it would not have too much credit localized in any one place. This policy would probably prevent the Bank from becoming connected with any such large enterprise as the proposed Argentine steel mill. As examples of applications which might be considered favorably, Mr. Arey mentioned an application for $750,000 for road building equipment and a relatively small project in which Mathison Chemical Company was interested for the sale of fertilizer. Mr. Arey said he was rather doubtful about the Westinghouse International application for the improvement of the Buenos Aires electrical plant in view of the harsh treatment which the Argentine Federal and Provincial governments had given to American Foreign Power. Mr. Arey also mentioned that the Bank had been approached with regard to the proposed sale of 100 locomotives to Argentina by the Baldwin Locomotive Works. St. Joseph Lead Company was also interested in financial assistance. Finally, Mr. Arey said that only recently the Bank had been approached with regard to financial assistance for the development of coal fields in Argentina.

To supply the Bank with the necessary information for considering the increased number of applications which were coming in on Argentine projects, Mr. Arey said the Bank was conducting an over-all study[1] of the Argentine economic and financial picture. He said that as a result of this it might be determined that Argentina could not stand any further dollar indebtedness. On the other hand, the Bank might conclude that it would be desirable to go ahead on some relatively small projects up to a total of perhaps 30 to 50 million dollars. Any further action would have to await the conclusion of the over-all study. In any event, General Edgerton said that the Bank was glad to know the State Department would have no political objections to the favorable consideration of small loan applications if the Bank felt them to be economically desirable.[2]

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[1] Representatives of the Export-Import Bank visited Argentina several times during late 1953 and 1954; pertinent documents are in file 103 XMB for those years.

[2] In despatch 807, from Buenos Aires, dated Feb. 19, 1954, Ambassador Nufer stated that the Export-Import Bank should consider large-scale loans for projects in Argentina. The Ambassador further stated that the Embassy was not "unduly concerned over the possibility of any Argentine default," but was "more concerned over the probability that our position and influence in this market will deteriorate seriously unless U.S. manufacturers receive assistance in competing for large-scale contracts." (835.10/2–1954)

Eisenhower Library, Dulles papers, White House memoranda

Memorandum by the President to the Secretary of State[1]

PERSONAL AND CONFIDENTIAL WASHINGTON, November 6, 1953.

In view of the conciliatory gestures that Peron seems to be making from time to time, I wonder if it would not be well for us to decide between ourselves (and to inform our Ambassador in Argentina) as to exactly what conditions would justify a real *rapprochement* between the two governments.

Even if you and I should become convinced that the man has really reformed and is conscientious in building up a real friendship with our country, we could not possibly, under present conditions, make a great deal of progress in that direction. Our people would necessarily have to be convinced of his honesty of intention.

It seems to me that there are several things that would have to be accomplished before we could really treat him officially as we would any other head of a friendly government. I think the newspapers that he took over in the Argentine would have to be restored to their rightful owners and allowed free operation. I think that unnecessary restrictions on the travel of our citizens in Argentina would have to be lifted. Another thing is that he would have to convince other countries in South America that he is operating on a friendly and honest basis. There may be other things of this same character that would have to be done.

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[1] A handwritten marginal notation on the source text, initialed by Mr. O'Connor, indicates that the Secretary saw this memorandum.

In any event, I think this is a subject that you and I should have a talk about one of these days.

D[WIGHT] D. E[ISENHOWER]

735.00/11-1953

Memorandum by the Secretary of State to the President[1]

CONFIDENTIAL [WASHINGTON,] November 19, 1953.

Subject: Development of *Rapprochement* with Argentina

In response to your memorandum[2] on our relations with Argentina, it is my general feeling that if improvements continue at the present pace—and if we can avoid any setback—matters are developing about as favorably as we could reasonably expect. While the attached paper summarizes recent advances, if you should wish to discuss our Argentine relations further I should be glad to do so at your convenience. Despite Peron's present friendliness, we should not be altogether surprised if he should fly off on another anti-American tangent.

I agree that Peron's disinclination to restore the newspaper *La Prensa* to its former owner (whom he considers to symbolize the feudal economic and social structure which he has tried to reform), and the tenacious interest of the U.S. press in this matter will delay any real public acceptance of Peron in this country. The *New York Times* has been particularly critical and the United Press, partly because of its important financial connections with *La Prensa*'s previous owner, has apparently spearheaded the drive for restoration of the paper. For his part, Peron's position, firmly and publicly stated, is that he will never return *La Prensa*. Since it now belongs to the Argentine General Confederation of Labor, which numbers 5 million members, he would probably find it difficult to reverse himself even if he wished to do so. I am hopeful that if Peron continues on his present conciliatory course, American public opinion will gradually become more friendly to him.

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[1] Drafted by Deputy Assistant Secretary Woodward; delivered with attachment to the White House on Nov. 19.

[2] *Supra*.

Peron's suspicion that the U.S. Government was secretly working against him and inspiring press attacks was apparently finally allayed only with the general clearing of the atmosphere which resulted from Dr. Eisenhower's visit to Argentina last summer. I fear that this new and, I hope, sincere confidence of Peron in our intentions would be undermined and possibly destroyed if we were to indicate in any way that we considered the *La Prensa* case a fit subject for official U.S. advice or discussions—particularly in view of our policy and commitments against intervention in the internal affairs of the other American nations.

To my knowledge, there are at present no significant restrictions on the travel of U.S. citizens within Argentina, although there are limitations on the travel to Uruguay of residents of Argentina, including U.S. citizens. Our Embassy in Buenos Aires has been able to secure exceptions to these controls in particular cases.

JOHN FOSTER DULLES

[Attachment]

Paper Prepared in the Office of South American Affairs[3]

IMPROVEMENT IN RELATIONS WITH ARGENTINA

Perhaps the most important single improvement in our relations with Argentina has been the cessation of Argentine propaganda attacks which had undoubtedly had a very divisive effect on the attitude toward the US in Argentina and elsewhere in Latin America. The cessation of this propaganda is in itself very valuable to us.

Related to this has been the removal of restrictions on the operation of the US press services in Argentina. This has not only meant improved treatment for an important US enterprise, but has also aided full and fair news presentation of our actions and policies. In the same field, Peron has just told our Ambassador that he is taking steps to permit the free entry into Argentina of US periodicals which have heretofore been barred.

The Argentine authorities have also begun to take a much stronger stand against Communism in that country, in both statement and action.

Argentina has also removed discriminatory obstacles to the operation of some US business firms by issuing long delayed import permits for essential production materials. US film distributors have been given clearance on a long list of films whose importation had been held up. Legislation has been enacted designed to attract foreign private capital to Argentina by spelling out permissible profit remittances and capital repatriation. While the law is not entirely attractive in all provisions, it indicates a substantially improved attitude.

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[3] Apparently drafted by Mr. Dearborn.

The Argentines have cooperated well with us at the present session of the UN General Assembly.

Most of this improvement in relations, which began with the election of President Eisenhower, and was given sharp impetus by the visit of Dr. Milton Eisenhower to Buenos Aires last summer, has consisted in the elimination of activities and situations distasteful to us. There is, however, virtually no possibility that Peron would or could consider eliminating the principal point of grievance in the eyes of the US press, the restoration of the newspaper *La Prensa* to its former owners. Goaded by *New York Times* editorial attacks on this matter, Peron recently reaffirmed his stand. This is essentially such an internal Argentine matter, even though it obviously has international and moral implications, that we have been most cautious about raising it with the Argentines in order not to be accused of "intervention."

611.35/12-3053

Memorandum of Conversation, by the Ambassador in Argentina (Nufer)[1]

[Extract]

CONFIDENTIAL BUENOS AIRES, December 30, 1953.

. . . .

I then said I woud like to refer to a less agreeable subject, i.e., the Czechoslovakian steel mill.[2] I gave the President and Remorino[3] each a copy of a memorandum[4] which the Embassy had prepared explaining the exact status of the matter and suggested that they might like to read it at their leisure (see enclosed memorandum). I said there appeared to be no alternative to the sale of the mill at public auction to the highest bidder.

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[1] Transmitted to the Department of State under cover of despatch 636, from Buenos Aires, dated Dec. 30, 1953, not printed (611.35/12-3053). The conversation reported in this memorandum took place on Dec. 29.

[2] Reference is to a rolling mill for the production of steel purchased in the United States by a Czechoslovakian firm in 1947 for approximately $17 million. In 1948, the U.S. Government denied application for a license to export the mill to Czechoslovakia, and in January 1952, the Treasury Department issued an order blocking the unlicensed transfer of the mill, pending settlement of U.S. claims against Czechoslovakia. The Argentine Government signed an agreement with the Czech Government in November 1953 to purchase the mill for the equivalent of $12.5 million in Czech currency, payable half in commodities and half in cancellation of an existing commercial debt. The United States disapproved this arrangement and refused to release the blocking order. A memorandum by Mr. Woodward to Secretary Dulles, dated Mar. 22, 1954, summarized developments to its date (835.33/3-2254). Additional pertinent documents are in file 835.33 for 1953 and 1954.

[3] Foreign Minister Remorino was also present during the discussion.

[4] Not printed (835.331/12-1153).

Perón said that Sosa Molina,[5] the Minister of Defense, who was constantly importuning him about the mill, had told him that he was trying to arrange for Westinghouse International to bid on the mill with a view to reselling it to the Argentine Government if its bid proved successful. Sosa Molina seemed to think that Westinghouse International might be willing to cooperate along these lines. He added that Colonel Sosthenes Behns of IT&T had mentioned the mill to him when he was in Buenos Aires a few weeks ago and that he intended to instruct Ambassador Paz to get in touch with the Colonel in order to find out if there was any way in which IT&T could be of assistance.

Perón inquired if there was any way in which Argentina itself could submit a bid without the immediate outlay of dollars should its bid prove successful. He asked specifically whether it would be possible to pay in installments or whether the necessary dollars could be advanced by the Export-Import bank. I replied that I was certain neither of these procedures would be possible. The Treasury, I felt, would probably insist on cash and the Export-Import bank could not, for political reasons, loan money to any country to pay for the mill because any unsuccessful U.S. bidders could then allege that a U.S. public lending institution had made it possible for a foreign country to outbid them. Perón seemed to understand this and told Remorino to keep in close touch with Ambassador Paz so that every possibility might be explored. I got the impression that Perón was obviously very much interested in securing the mill for Argentina but appreciated the situation in which we found ourselves and that he did not, at this stage at least, harbor any resentment against the United States over the turn of events.

I then said there was another problem which I wanted to mention, i.e., the recent establishment of a U.S. import quota on oats. Perón apparently had no previous knowledge of this but Remorino said this was a disturbing development and one on which he had been in close touch with Sr. Cafiero,[6] the Minister of Foreign Trade. I read to Perón and Remorino, and left with them copies of, a memorandum[7] on the subject which I told them was unofficial and perhaps not completely accurate as much of the information it contained was received yesterday over long distance telephone. The President seemed to understand our position. Remorino was apparently more disturbed and remarked that when he was Ambassador in Washington the State Department constantly complained about high IAPI prices and now he said we were complaining because its prices were too low. I said that even if Argentine oats were offered at the equivalent of the U.S. market price their unlimited importation would still constitute a serious problem in view of our large surplus and the difficulties which such importations would create for our price support program. Remorino inquired whether there was any assurance that the entire 2.5 million bushels set aside for countries other than Canada could be supplied by Argentina. I told him that it would not be possible to give any such assurance and that as I understood it, it was a matter of "first come, first served". I understood, however, that Argentina was the only potential supplier of important quantities of oats to the United States outside of Canada Remorino said he had instructed Cafiero to expedite shipments as much as possible with a view to insuring that Argentina would get the lion's share of the quota. He said that the sole purpose of these exports was to obtain dollar exchange for the purchase of essential U.S. products.

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[5] José Humberto Sosa Molina.

[6] Antonio Francisco Cafiero.

[7] A copy of the referenced memorandum, in Spanish, dated Dec. 29, 1953, attached to the source text, is not printed.

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INR–NIE files

National Intelligence Estimate

SECRET WASHINGTON, March 9, 1954.

NIE–91–54

PROBABLE DEVELOPMENTS IN ARGENTINA [1]

THE PROBLEM

To assess the situation in Argentina and to estimate probable developments through 1955.

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[1] A note on the cover sheet indicates that the Intelligence Advisory Committee concurred in the present estimate on Mar. 2, 1954, and that the FBI abstained, because the subject was outside of its jurisdiction.

CONCLUSIONS

1. Peron now dominates Argentina more completely than ever before. He has the active political support of a substantial majority of the population, including especially urban and rural labor, the numerous bureaucracy, and many industrialists. He has also secure control of the armed forces, the police, the principal labor organizations, the Peronist Party machine, the national Congress, and the provincial governments. Extensive decree and police powers enable him to interfere in any aspect of national life. He has in effect a monopoly of all media of public information. There exists no effective opposition to his regime.

2. For his own purposes, Peron has sometimes adopted policies advocated by the Communists, but we do not believe that they have had a determining influence on the basic objectives of his regime. The Argentine Communist Party has little popular support. It has had virtually no success in infiltrating the armed forces and little in the bureaucracy. It is currently critical of the regime and is being harassed by it. A small group of dissident Communists advocates collaboration with Peron and is tolerated by him.

3. Peron's most pressing problem is the solution of Argentina's economic difficulties. Barring a serious crop failure or a seriously adverse change in the terms of trade, Peron can probably achieve a slight and gradual improvement in the economic situation during the next several years. It is unlikely, however, that Argentine foreign exchange earnings will be sufficient to finance the major development projects envisioned in Peron's second Five-Year Plan (1953–1957). For this purpose, Peron seeks private foreign credits and investments, but he will probably be unable to attract sufficient foreign private capital to permit substantial fulfillment of these major projects.

4. Peron has abandoned his former anti-US foreign policy and propaganda line, and has sought a *rapprochement* with the United States, stressing the value of Argentina as an anti-Communist force in South America. He apparently hopes thereby: (a) to induce the United States to adopt a benevolent attitude toward the extension of Argentine political and economic influence in neighboring countries; (b) to facilitate the investment of US private capital in Argentine economic development; and (c) to secure US aid in the expansion of Argentine military facilities. It is to be expected, however, that Peron will continue to maintain diplomatic relations with the Soviet Bloc and will seek to increase Argentine non-strategic trade with the Bloc.

5. Peron will probably continue his policy of *rapprochement* with the United States as long as his internal political position remains secure and as long as collaboration with the United States appears on balance to favor the realization of Argentine national aspirations. In these circumstances, he will probably continue to curb Communist activities in Argentina.

6. If Peron should conclude that his *rapprochement* with the United States was proving unproductive, or if, for any reason, the Argentine economic situation should deteriorate to such a degree as to threaten the stability of the regime, Peron would probably revert to a demagogic internal policy and an antagonistic foreign policy. Such developments would probably result in some increase in Communist influence, but Peron would not be likely to permit the Communists or any other group to become serious competitors for his power.

7. The Argentine armed forces are more than adequate for the maintenance of internal security. In the event of general war, Argentina would be capable of providing one or two divisions for use outside the country, but they would lack modern and heavy equipment and training in modern warfare. The Navy and Air Force would require considerable outside material assistance and training before they would make a significant contribution.

8. In the event of general war, Peron would exploit the situation to obtain the maximum price for Argentine goods and services. He would probably seek to avoid belligerent participation as long as possible, and in any case would probably be reluctant to provide forces for service outside the Western Hemisphere.

9. In the event of Peron's demise the Army would probably have the predominant voice in the choice of his successor. In its early stages, any successor government would probably attempt to follow the same general internal and external policies as were being followed by Peron at the time of his death.

DISCUSSION *

I. *Political Situation*

10. Peron now dominates Argentina more completely than ever before. His position has gradually been strengthened over the years to the point where it is virtually unchallenged. He has the support of large segments of the population. He has also succeeded in concentrating in his hands such political, economic, and military power that he can almost certainly prevent the emergence of any effective opposition.

11. The Peronist Revolution, in the name of "social justice, economic independence, and political sovereignty," has wrought many far-reaching political, social, and economic changes which will probably be more permanent than either the Peronist Party or its leaders. Peron has shifted the balance of political power by redistribut-

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* This estimate supersedes NIE–66, "Probable Developments in Argentina," published 13 June 1952. However, the background information contained in NIE–66 is still considered to be generally valid. [Footnote in the source text. For text of NIE–66, see p. 409.]

ing income for the benefit of labor and by giving direct assistance to industry. The State has assumed a dominant role in the economic and political life of the nation. Peronism has borrowed from foreign ideologies, including Fascism and Marxism, and it emphasizes ultranationalism, industrialization, the political and social importance of labor, and state-supported welfare measures.

12. Peron's most important source of popular support is labor, which owes to Peron its improved social and political status as well as such material benefits as higher wages, low-cost housing, schools, clinics and hospitals. Peron also has the active support of: (a) tenant farmers, who benefited from Peronist tenant-landlord legislation; (b) government employees, who are dependent for their jobs on loyalty to Peron; (c) many industrialists who favor Peron's protectionist policies and his industrial expansion program; and (d) the country's principal ultranationalist organization, the Nationalist Liberating Alliance.

13. Since the death of Eva Peron, the influential Roman Catholic Church has adopted a friendlier attitude toward Peron. It is now lending its support to Peron's appeals for cooperation of all parties in solving Argentina's current problems. Although certain areas of friction in Argentine Church-State relations still remain, there is no indication that Peron is contemplating any action against the Church which would cause it to abandon its traditional policy of avoiding open conflict with the regime in power.

14. Peron's dominant position in Argentina does not depend solely on the popular support his regime commands. Peron has solidified his control over the government and the country through the following instrumentalities:

a. The Armed Forces: Since the abortive attempt by certain officers to seize power in 1951, Peron has strengthened his control over the armed forces. He has purged those suspected of disloyalty and appointed personal followers to positions of command. He has also opened the officer ranks to enlisted men, who are largely pro-Peron. In addition, he has improved morale by bettering the living conditions of service personnel.

b. The Police: The Federal Police, National *Gendarmérie*, and Maritime Police, technically under the Ministry of the Interior, are loyal to Peron personally and are effectively controlled by him. These forces have been strengthened and are believed capable of maintaining internal security, even without Army support, but could not prevent an Army coup.

c. Organized Labor: The General Confederation of Labor (CGT) is Peronist-dominated and represents the majority of Argentine organized labor. Its leaders are influential members of the Peronist Party and many are also members of Congress. Through them, Peron exercises considerable control over the laboring masses and can, when necessary, quickly organize mass demonstrations in support of his policies. Since 1948, however, Labor's economic position has deteriorated as a result of inflation and the Administration has followed a hold-the-line policy on wage increases since March 1952. As a result of some evidences of labor unrest, Peron has recently taken steps to widen his control over labor by sponsoring the Confederation of Professional Workers. By this means, Peron hopes not only to split organized labor into two groups, neither of which would be strong enough to threaten his position, but also to attract professional and skilled workers who were dissatisfied with or would not join the largely unskilled CGT.

d. The Peronist Party: The Peronist Party is well-organized and responsive to Peron's wishes. It occupies all 34 seats in the Senate and 141 out of 155 seats in the Chamber of Deputies. Peron also has a strong hold on the provinces through this Party, which has elected all the provincial governors and has large majorities in all the provincial legislatures. The national and provincial judiciaries are dominated by Peronist appointees.

e. Government Controls: A docile Congress has granted Peron extensive decree and police powers with which he can effectively interfere in almost every phase of national life. The government supervises, and in some cases owns and operates, the press, radio, television, and other public information media. The new Five-Year Plan gives Peron extensive powers over the economy, including strict regulation of imports, exports, credits, wages and prices, as well as the power to dissolve any political party which opposes the principles of Peronism. Peron also has the power to impose martial law, curtail civil liberties, and apply severe penalties against any who criticize government officials.

15. Opposition to Peron still exists, but it is divided and lacks a popular program. It consists primarily of large landowners, professional groups, some of the more highly skilled workers who belonged to the pro-Peron unions, and some industrial and commercial elements. Many of Peron's opponents have been mollified by his recent policy of moderation and amnesty called the "national conciliation" movement. Moreover, the opposition has been unable to develop leaders or issues to challenge Peron's popular support, the principal opposition groups either merely demanding greater civil liberties (which has little appeal to labor) or seeking to outbid Peron's appeal to nationalist and isolationist opinions. The principal opposition party—the Radical Civic Union (UCR)—holds only 14 seats out of 155 in the Chamber of Deputies. It represents primarily urban elements rather than landowners, and is itself split into two main factions. One faction advocates merely passive opposition to Peron; the other advocates and occasionally perpetrates acts of violence against the regime. All opposition parties are further handicapped by restrictions placed on their campaign activities, by legal prohibitions against forming coalitions, and by being denied use of press and radio.

16. The Argentine Communists have not consistently opposed Peron. They are divided into two factions. The official Argentine Communist Party (PCA) has an estimated strength of 35,000, composed

chiefly of workers, students, and intellectuals. It has little popular support. It has had virtually no success in infiltrating the armed forces and little in the bureaucracy. Its penetration of the CGT has been limited to secondary positions in some unions. A small dissident Communist group (probably now numbering no more than a few thousand) split from the official party in 1946, although there is no evidence that it has abandoned its loyalty to Moscow. This group held that it could gain more by collaborating with Peron, and from time to time some of its members have had access to him as advisers.

17. Peron, for his own purposes, has sometimes followed policies advocated by the Communists, but we do not believe that either Communist group has had a determining influence on the basic objectives of the Peron regime. Peron accepted Communist advice and support while he was pursuing an anti-US policy. He has used the dissident group as a bait to oppositionists of the left, especially in the labor movement, to throw in their lot with Peronism. Now that Peron is seeking an accommodation with the US, he has stepped up police surveillance and harassment of the PCA. There are also indications that the CGT is taking steps to expel PCA members from union leadership. However, Peron apparently has not taken any steps against the dissident Communists. Although Peron's current stand against Communism is in part designed to impress the US, we believe that he is basically unsympathetic to Communism and would move promptly against the Communists if he felt they were becoming a threat to his position.

II. *Economic Situation*

18. Solution of Argentina's economic problems is the most pressing task facing Peron. The possibility of economic deterioration is the most important latent threat to Peron's ability to maintain himself in power.

19. Although a severe drought was the immediate cause of an economic crisis in 1951–1952, economic conditions had been deteriorating steadily under the strain imposed by Peronist economic policies and programs. Overambitious goals for rapid industrialization and expansion of social services, and faulty allocation of foreign exchange, were largely to blame. Nationalization of foreign-owned public utilities, repatriation of the foreign debt, and inefficient purchasing and utilization of imported equipment depleted the substantial gold and foreign exchange holdings which had accumulated during World War II. Meanwhile, the government's policy on land tenure and farm prices, combined with the movement of agricultural labor to the cities and the lack of compensating farm mechanization, had caused a progressive drop in agricultural production, and consequently in exports. Insufficient imports of essential raw materials and replacement parts led to a

decline in industrial output. Total gross national product (GNP) declined in the period 1949–1952 at an average annual rate of 5.6 percent, the cost of living index more than doubled, and the government's internal and foreign commercial indebtedness increased three-fold.

20. Economic conditions have improved since the low point in 1952. The 1952–1953 harvest was excellent and the incoming 1953–1954 harvest is also good. The resulting rise in exports, combined with a sharp curtailment of imports, produced a favorable balance of trade in 1953 and permitted the government to increase its gold reserves and reduce its short-term foreign indebtedness. Inflation was checked by strict management of credit and by freezing prices and wages. However, Peron still faces many economic problems. Agricultural costs are inflated and productivity is low. Industrial production is hampered by obsolescence of plant and equipment, by tight credit restrictions, and by shortages of imported raw materials. Wage and price stability is threatened by strong pressure for another round of wage increases.

21. Peron's second Five-Year Plan (1953–1957) was passed by Congress in December 1952. It is an ambitious and exhaustive blueprint of the government's economic objectives and gives Peron virtually unlimited powers to regulate nearly every phase of Argentine economic life. The Plan calls for an annual growth of GNP of 3.6 percent and allows for a total expenditure by the national government over the five years of 33.5 billion pesos (6.7 billion dollars at the official rate of exchange). The bulk of government investment under this Plan is earmarked for transportation, fuel, and power. Peron could probably finance the domestic costs of the Plan without resort to inflationary deficit financing or credit expansion by such measures as using social security funds and reducing normal government expenditures. Peron is apparently first concentrating on the agricultural portion of the Plan. He is allocating a substantial portion of Argentina's foreign exchange earnings to the importing of tractors, fertilizers, etc. However, Argentina's foreign exchange earnings within the next two years are not likely to suffice for the large-scale importation of developmental equipment envisioned in the Plan.

III. *Capabilities of the Armed Forces*

22. Argentine manpower available for military service is of excellent quality. The Argentine armed forces have an estimated strength of 145,500 divided as follows:

a. Army: The Army has approximately 102,000 men, of whom about 75,000 are one-year conscripts. There are 6 infantry, 1 motorized infantry, 1 armored, and 3 cavalry divisions, and 2 infantry divisional-equivalent groupments (1 mountain, 1 motorized), supplemented by smaller combat units. The Army's morale and training are excellent by

Latin American standards, but it is short of modern and heavy equipment and lacks training and experience in large-scale operations.

b. Navy: The Navy with personnel totalling approximately 28,500, maintains the largest fleet in Latin America. It consists of 2 old battleships, an old monitor, 2 heavy and 3 light cruisers, 6 destroyers and 9 old destroyers, and various minor combatant ships and amphibious and auxiliary vessels. The Naval Air Arm has approximately 190 aircraft, mainly in transport and reconnaissance categories, about 50 of which are assigned to tactical units, and 2,700 men, including some 150 pilots. Although basic seamanship, training, and morale are good by Latin American standards, the Navy's combat effectiveness is low because of aging ships, obsolete aircraft, prewar doctrine, and an almost complete lack of modern AA and ASW weapons and fire-control and electronic gear.

c. Air Force: The Air Force has 15,000 men, including 430 trained pilots. Approximately 375 of its 712 aircraft are in tactical units—the remainder being trainers or in storage. There are about 80 Gloster meteor jets and a few operational Lancaster and Lincoln bombers. The combat effectiveness of the Air Force is limited by the total lack of electronic early warning and intercept equipment and by critical shortages of fuel, spare parts, and armament.

23. The armed forces are supplemented by the Federal Police (47,000 men), the National *Gendarmérie* (15,000), and the Maritime Police (3,500). Their morale and training are excellent and they are believed capable of maintaining internal security.

24. The Argentine armed forces are more than adequate for internal security. Peron desires to strengthen and modernize the armed forces in order to: (a) enhance Argentina's prestige in Latin America, particularly vis-à-vis Brazil, and (b) increase his bargaining power in negotiations for US assistance by pointing to Argentina's capabilities for suppressing Communism and for contributing to Hemisphere defense. In the event of general war, Argentina would be capable of providing one or two divisions for use outside the country, but they would lack modern and heavy equipment and training in modern warfare. The Navy and Air Force would require considerable outside material assistance and training before they could make any significant contribution to coastal and antisubmarine patrol and convoy operations.

IV. *International Policies*

25. Under Peron, Argentina has been faced with the problem of adjusting to a new world-power pattern. At present, Argentina has no secure tie with any great power. The British connection no longer serves as a major support for Argentine economic progress and stability. Argentina has been unable to establish a friendly collaboration with the United States such as Brazil enjoys. Basic political, ideological, and economic considerations make it virtually impossible for Peron to align

Argentina definitely with the USSR. Peron's "Third Position," which proclaimed Argentina's independence with respect to the opposing world camps, was developed as a rationalization of changes in the past decade superimposed upon Argentina's traditional isolationist tendencies.

26. Argentina's international aspirations include a dominant position in southern South America, a position of leadership in Latin America, and a place in the world corresponding to somewhat inflated views of national capabilities. To reach these goals, Peron requires internal economic expansion, a free hand to assert Argentine influence over neighboring countries, and foreign support for Argentine pretensions in world affairs. For such purposes, the cooperation of a major power is essential, but such cooperation has not been obtained. Consequently the foreign policy of the Peron regime has been unstable, responsive to the momentary requirements of domestic politics, and, in general, characterized by a high degree of opportunism.

27. Argentine policy toward the US, traditionally one of aloofness, has been conditioned by long-standing British ties, limitations on Argentine exports to the US, and US policy barriers to Argentine expansionism and leadership in the Hemisphere. Under Peron, Argentine foreign policy became increasingly aggressive, and its antagonism toward the US more pronounced. By 1951–1952, Peronist propaganda was lending volume and coverage to ultranationalist, Communist-line attacks on the US. This aggressively anti-US line reflected Argentine feelings of insecurity, was colored by the Peronist revolution's heavy emphasis on "anti-capitalist" and "anti-imperialist" political slogans, and was intensified by general economic deterioration.

28. By late 1952, however, Peron apparently calculated that this anti-US policy was unprofitable. It was having little effect in undermining US influence in Latin America, and Argentina was making little progress in strengthening its economy and achieving a dominant position in southern South America. Most important, Peron apparently concluded that substantial foreign economic support was essential to the achievement of his internal economic goals, which in turn was a prerequisite to his remaining in power and achieving his foreign policy objectives in Latin America. The timing of Peron's decision to seek an accommodation with the US was also in part determined by: (a) his strengthened internal political controls which made him less dependent on the support of anti-US elements, and (b) the change in administration in the US and the subsequent visit of Dr. Milton Eisenhower.

29. At present, Argentine anti-US propaganda has virtually ceased. The "Third Position" line has virtually disappeared, restrictions have been lifted on US press services and publications, and more favorable conditions are being created for US-owned business interests. There

are also indications that Peron will give greater support to US objectives and proposals in the OAS and the UN.

30. Although thus seeking an accommodation with the US, Peron apparently feels he cannot alienate his nationalist supporters to the extent of seeking direct US loans or aid, or proposing a military assistance pact. Instead, Peron is apparently seeking to persuade the US: (a) to adopt a benevolent attitude toward Argentine political and economic objectives in Latin America; (b) to encourage US private business to invest in Argentina and to liberalize credit terms; and (c) to aid in the expansion of Argentine military facilities by making technical advice and materials available on liberal terms. Peron has stressed that such support would benefit the US by enabling Peron to adopt a stronger stand against Communism in Argentina, and by increasing Argentine capabilities for combatting the growth of Communism throughout Latin America and for defending southern South America in the event of external Communist aggression.

31. Argentina's efforts to extend its influence in Latin America have had little success except in the cultural field. The Argentine-sponsored labor movement (ATLAS), assisted by Argentina's extensive network of labor attachés, has not attracted the support of the major Latin American labor organizations. Although Argentina has signed "economic union" pacts with Paraguay, Chile and Ecuador,[2] any significant extension of Argentina's economic influence has been blocked by its inability to fulfill its trade commitments.

32. Argentine-Brazilian rivalry remains strong and may pose special problems for the US now that Argentina is seeking friendlier relations with the US. Each country will be quick to claim that the US is favoring the other. There are already indications of increasing anti-US sentiment in Brazil, which may be strengthened if the impression grows that the US is favoring Argentina at the expense of Brazil. Thus, closer US-Argentine relations, in addition to causing friction between the US and Brazil, may complicate US relations with other Latin American countries—such as Uruguay—which are suspicious of Argentine expansionist ambitions.

33. Argentina maintains diplomatic relations with the USSR and all the European Satellites except Albania. All these countries have res-

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[2] Reference is to the declaration of economic union, commonly referred to as the "Act of Santiago", signed by President Perón and President Ibáñez at Santiago, Feb. 21, 1953; for text, see *Mensaje a los Pueblos de America de los Presidentes Perón e Ibáñez, Afirmación de un destino común* (Buenos Aires, 1953), pp. 33–35. Both Ecuador and Paraguay adhered to the Act at a later date.

On July 8, 1953, Argentina and Chile signed a treaty at Buenos Aires providing for an economic union between the two countries in pursuance of the provisions of the Act of Santiago; the text was transmitted to the Department of State under cover of despatch 28, from Buenos Aires, dated July 10, 1953, not printed (425.3531/7–1053).

ident missions in Buenos Aires which provide channels for the dissemination of Communist propaganda both within Argentina and to neighboring countries. Argentina in turn has resident missions in the USSR, Czechoslovakia (accredited also to Hungary), Poland, and Rumania (accredited also to Bulgaria).

34. Argentina's trade with the Soviet Bloc is now about 2.5 percent of its total foreign trade. This percentage will increase substantially if commitments under the recent Argentine-Soviet trade agreement are carried out. The agreement calls for an exchange of goods totalling $150 million, with Argentina exporting non-strategic raw materials in exchange for Soviet capital goods and fuels. To facilitate this trade, the USSR advanced to Argentina a $30 million dollar credit for the import of Soviet capital goods. There is no time limit on delivery. Soviet exports would be small in relation to Argentina's total import requirements, but would satisfy Argentina's needs in certain important categories, particularly petroleum drilling and refining equipment.

V. *Probable Developments*

35. The Peronist Party will almost certainly win a decisive victory in the Congressional and Vice-Presidential elections scheduled for 25 April 1954, thus substantially strengthening Peron's position. As long as there is no serious economic deterioration, political opposition to Peron will be ineffective and Peron will maintain his hold over the country.

36. The principal potential threat to Peron is the unrest, particularly in the laboring class, that would result from a major crop failure or severe economic depression. We believe that through his control over the CGT leadership Peron would probably be able to prevent labor unrest from becoming unmanageable. In the event that the CGT leadership were unable to control its mass membership, we believe that Peron would retain the support of the armed forces and the police, and that these forces would be able to control any disturbances or revolt that might occur. We believe that there is little chance that Peron will be ousted by an armed forces coup.

37. Barring a serious crop failure or a severe drop in the world demand or price for Argentine exports, we believe that there will be a slight and gradual improvement in the Argentine economy through 1955. There will probably be sufficient foreign exchange earnings from agricultural exports to maintain essential imports at present levels and at the same time to permit: (a) increases in agricultural productivity through the import of tractors, fertilizers, seed, etc., and (b) some rehabilitation and modernization of industrial plant and equipment. Foreign exchange earnings, however, will remain inadequate to permit a relaxation of present stringent import controls or to undertake many of the major development projects called for by the Five-Year Plan.

38. In these circumstances, Peron will probably seek to implement the developmental aspects of the Plan through private foreign credits and private foreign investment. Although Western Europe and Japan are increasing their trade with an investment in Argentina, and West Germany has recently become one of Argentina's most important sources of short-term commercial credits, Peron apparently believes that the US is his principal potential source of foreign private capital. Peron has already liberalized the law applying to new foreign investment. He will also probably offer more attractive terms to investors in fields of special interest to the government, particularly petroleum. He may also permit present private investors to remit accumulated backlogs of profits, royalties, and dividends, to the extent that exchange availabilities permit. Despite such measures, it is unlikely that Peron will be able to attract sufficient foreign capital, particularly in the field of transport, power, and other basic services, to permit substantial fulfillment of the major development projects included in the Five-Year Plan.

39. Although Peron will probably concentrate on agricultural and industrial rehabilitation, there will remain the danger that for political or prestige reasons Peron will feel compelled before the end of 1955 to adopt measures which would have serious inflationary results. For example, he may feel it necessary, under pressure of popular demands, to relax controls on imports, wages, or credits. If he does not succeed in attracting sufficient foreign capital, he may also feel compelled to distract attention from continued austerity conditions by pushing ahead rapidly with spectacular projects at the expense of strengthening agriculture and industry.

40. The influence of the Communist Party will probably not increase. Peron will probably continue repressive measures against the official Communist Party, and will attempt to curb its efforts to promote anti-US opinion. A few "dissident" communists, however, may succeed in infiltrating the Peron Administration. If Peron should abandon his policy of accommodation with the US, a more favorable climate for the extension of Communist influence would exist, but the Communists would still not pose a serious threat to the Peron regime.

41. Peron will continue his policy of accommodation with the US as long as his internal political control remains strong, and as long as collaboration with the US appears on balance to favor Argentine national aspirations. Peron will be sensitive to any US intrusion in foreign markets vital to Argentina's exports, and resentful of US actions that appear to him to block the extension of Argentine influence in Latin America. During the period of accommodation with the US, Peron will probably continue to facilitate the solution of problems facing US enterprises, including news services and publications. Argentina will

probably be more cooperative with the US in international organizations.

42. Argentina will almost certainly continue to maintain diplomatic relations with the Soviet Bloc and attempt to increase Argentine trade with the Bloc, especially with the USSR. To the extent that Argentine economic development objectives are not attained through collaboration with the US and other Free World nations, Peron will probably seek a further expansion of trade with the Bloc, especially if the USSR fulfills within a reasonable time at least the major part of its commitments under the recent trade pact.

43. Peron will continue to seek to expand Argentine influence in Latin America. Argentina's prestige throughout the Hemisphere will probably improve during the next two years, provided Peron continues his policy of accommodation with the US and refrains from undue interference in the internal affairs of other Latin American nations. Although Argentine trade with other Latin American nations will probably increase somewhat, Argentina is not likely to develop sufficient economic strength to increase significantly its economic influence in Latin America generally.

44. In the event of general war, Peron is not likely immediately to enter the war in active support of the US. His primary objective would be to exploit the war to Argentina's advantage. He would almost certainly demand high prices for exports of food and raw materials to the Allied powers. Although initially he would probably wish to remain neutral, he might subsequently enter the war and offer: (a) to cooperate in measures to suppress the Communists in South America, and (b) to collaborate with the US in Argentine coastal defense and patrol activities. He would probably be reluctant to provide forces for service outside the Western Hemisphere.

45. Peron's disregard of personal security precautions increases the chances of his death by accident or assassination. He has kept in his own hands so many of the instruments of control that the problem of succession would be extremely difficult. A struggle for power would almost certainly ensue. In such a struggle, the Army would almost certainly play a determinng role. The most likely immediate development would be an Army-backed caretaker government. In its early stages, any successor government would probably attempt to follow the same general internal and external policies as were being followed by Peron at the time of his death.

611.35/3-2454

Memorandum of Conversation, by the Attaché-designate in Argentina (Sandifer)[1]

SECRET

[WASHINGTON,] March 24, 1954.

Participants: The Secretary
Durward V. Sandifer

I called to say goodby to the Secretary today in view of my prospective departure for Buenos Aires next week.

The Secretary referred to his recent experiences in Caracas[2] and said that the Argentine delegation had not been too helpful. He said that he had been told by veterans of inter-American conferences that the Argentine performance was far better than it would have been six or eight months ago. He said he had a number of conversations[3] with the Argentine Foreign Minister. The Foreign Minister had referred to the steps taken by President Peron to improve relations with the United States and to establish a basis of mutual confidence and trust between the two governments. He said that the Government of the United States had not responded in kind to these overtures. I queried the Secretary on this point to make sure that I had understood it correctly. The Secretary said that the Foreign Minister had complained about three or four specific points:

1. The Argentine desired to purchase the Czech steel mill. The Secretary said that he had signed a letter[4] yesterday to the Foreign Minister telling him that the transfer of the steel mill to Argentina would be approved if we were successful in the bidding to be opened shortly by the Treasury Department.[5]

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[1] Mr. Sandifer was appointed attaché at Buenos Aires on Feb. 28, 1954.

[2] Reference is to the Tenth Inter-American Conference, which met at Caracas, Mar. 1-28, 1954; Secretary Dulles was Chairman of the U.S. Delegation until his departure from Caracas on Mar. 13. For documentation concerning the conference, see pp. 264 ff.

[3] A memorandum of conversation between Secretary Dulles and Foreign Minister Remorino which took place on Mar. 2, 1954, drafted by Mr. Cabot on the following day, is in OAS files, lot 60 D 665, "Bilateral Talks." No others were found in Department of State files.

[4] Not printed.

[5] On Mar. 25, 1954, the U.S. Treasury Department announced that the blocked Czech steel mill was open to public sale by sealed bid. In telegram 676, to Buenos Aires, dated May 10, 1954, the Department of State informed the Embassy that the Treasury Department had notified the Argentine Embassy that the Argentine Government was the highest bidder (at $9 million) on the steel mill (835.331/5-1054). The transaction was completed on May 17, 1954, and the component parts of the mill were subsequently shipped to Argentina between June and September 1954. For additional information on the sale of the mill, see *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1954* (Washington, 1955), pp. 61, 134.

2. The import restriction on Argentine oats.
3. Sale of wheat to Brazil.
4. Sale of wheat to Pakistan.

The Secretary commented specifically on each of these points to Remorino, and referred to some of the steps taken by this Government in response to Peron's friendly gestures.

The Secretary said that the Argentine Government seemed inclined to "play footsie" with the Guatemalans. While he realized that not too much importance should be attached to such incidents, he referred to Remorino's making a symbolic handshaking gesture to the Guatemalan representative as Remorino passed in front of the entire assembly on his way to the platform to make a speech on the resolution on communism,[6] and to Remorino's ostentatiously congratulating the Guatemalan representative after his speech on the same resolution.

In connection with his comments on the resolution on communists and the Guatemalan situation,[7] the Secretary spoke particularly of the need for cultivating solidarity in this hemisphere as a security measure, in light of the difficulties that we are experiencing with our security program in other areas. He was concerned about the Guatemalan situation especially as the potential source of infiltration and of disunity. This, however, was far less important than any tendency on the part of the Argentinians to play cozy with the Guatemalans at the present juncture. It is of the greatest importance, he said, to develop a sound basis of solidarity with the Argentine Government to prevent its becoming a possible communist threat to inter-American security and solidarity. We should do all that we possibly can to respond to Peron's present favorable orientation. This, of course, must be done in the context of our over-all inter-American policy and, it is important not to do it in such a way as to offend or alienate our good friends of long-standing. He mentioned Brazil in particular in this connection. The Secretary ended by reiterating the importance of inter-American solidarity as a primary basis of American security.

The Secretary congratulated me on my assignment to Buenos Aires, saying that he thought it was an excellent place for me to begin my new career in the Foreign Service.

DURWARD V. SANDIFER

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[6] Apparent reference to Resolution XCIII, titled "Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism," approved on Mar. 28, 1954; for text, see *Tenth Inter-American Conference: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 5692. Washington, 1955), pp. 156–158.

[7] For documentation on this subject, see pp. 1027 ff.

835.00 TA/6–3054

Memorandum by James F. O'Connor, Jr. of the Office of South American Affairs to the Deputy Director of That Office (Bennett)

CONFIDENTIAL [WASHINGTON,] June 30, 1954.

Subject: Assistance to Argentina.

We have assisted Argentina since the Milton Eisenhower trip in the following significant instances:

Tangible Items:

1. Eximbank approval $2.52 million dollar loan guaranty to Baldwin-Lima-Hamilton Corporation in connection with sale of 50 locomotives to Argentina.[1]
2. Treasury sale of Czech steel mill to Argentina.
3. Eximbank approval in principle of $12.3 million dollar loan guaranty to the McKee Company for sale of a blast furnace to Argentina.[2]

Intangible Items:

4. Making available, at Argentine request, 47 T–6D reconditioned training planes (Argentina eventually refused this offer, ostensibly for technical, but really for budgetary reasons.)
5. Making available, at Argentine request, 318 Ford tank motors (at last word Argentina had not yet accepted this offer, and was likely to refuse again for budgetary reasons.)

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[1] Reference is to Export-Import Bank Credit No. 582, authorized by the Bank on Feb. 11, 1954.

[2] Documents pertaining to this subject are in files 103 XMB and 835.331 for 1954.

835.311/8–654

Memorandum by Henry Dearborn of the Office of South American Affairs to the Deputy Director of That Office (Bennett)

CONFIDENTIAL [WASHINGTON,] August 6, 1954.

Subject: Problems of International Packers in Argentina and Uruguay[1]

I refer to the Memorandum of Conversation of August 5[2] between Mr. Holland and Mr. Taylor[3] regarding the problems of the International Packers in Argentina and Uruguay.[4] In my opinion it would strike a sour note with Perón and with the Uruguayan Government if we were to follow Mr. Taylor's suggestion—namely, to have Ambassador Nufer and Ambassador McIntosh approach Perón and the Uruguayan Government respectively on the Frigorifico problem with the hope that it might be solved before Mr. Holland arrives in Argentina and Uruguay.[5] In all probability such an approach would be resented and might well do more harm than good. You would not go to visit a neighbor on your own initiative and send him word beforehand that he could create a friendly atmosphere for your arrival if he would cut the grass between your two houses. If the neighbor did this on his own, it would make the visit more pleasant, but if you suggested it beforehand you would doubtless get a cool reception. If we wish either Ambassador McIntosh or Ambassador Nufer again to bring this problem to the attention of the respective governments I believe we should so instruct them without any reference to Mr. Holland's visits.

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[1] The problems of International Packers, Ltd., and other American-owned meatpacking firms in Argentina (often referred to as the "Frigoríficos") related to losses incurred by the firms as a result of Argentine regulations restricting profit margins, and establishing ceiling prices and delivery quotas for local consumption. Pertinent documentation is in files 835.311 and 811.05135 for 1952 through 1954. See also footnote 22, *Foreign Relations*, 1951, vol. II, p. 1127.

[2] Not printed (835.311/8–554).

[3] A. Thomas Taylor, Chairman of the Board, International Packers, Ltd.

It is apparent from the reports from Buenos Aires and Montevideo that Ambassadors Nufer and McIntosh have done and are doing just about all that is appropriate and promising of results by way of helping the packers. They show every disposition to continue the strong efforts that they have already made. We should continue to make specific suggestions to the Ambassadors as we have in the past but at the same time should have a full appreciation of the problems on the ground and should not push the Ambassadors into action which would create antagonism in government circles towards the packers.

The question will have to be considered sometime as to whether Mr. Holland should bring up this matter while he is in Buenos Aires and Montevideo. Apropos of this question we might remember that the Argentines expressed bitter disappointment in Eddie Miller's second visit to Buenos Aires for the very reason that individual U.S. business problems and complaints were important items on his agenda. The Argentines felt that such a visit should have been devoted to consideration of broader matters. It would seem to me that if Mr. Holland were to discuss with Perón hemispheric problems such as Communism, the place of Argentina in hemispheric defense, and over-all economic questions, he would be able to bring up without giving offense this question of the packers as an illustration of what should be remedied if U.S. investments were to be encouraged. In this context I believe mention of the matter might do some good. This is the context in which our Embassies in Buenos Aires and Montevideo have discussed this problem with high officials and Mr. Holland's reiteration would underline the U.S. Government's views at a high level.

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[4] For documentation relating to the problems of the meatpackers in Uruguay, see pp. 1548 ff.

[5] Between Sept. 5 and Oct. 10, 1954, Mr. Holland visited Mexico and all of the countries of South America for the purpose of explaining to and gaining acceptance from the leaders of those countries for the policies adopted by the United States in connection with the forthcoming Rio Economic Conference; extensive documentation concerning his trip is in file 110.15 HO for 1954.

The Rio Economic Conference is formally known as the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation relating to the conference, see pp. 313 ff.

Recommendation:

It is recommended that we continue to correspond freely with Ambassadors McIntosh and Nufer on the subject of packers in order to show them our concern. We should continue to urge high-level action whenever we think it necessary but not in reference to Mr. Holland's visits. When Mr. Holland does make the visits he might bring up the matter with those Governments also but not in a way that would make it seem that we give the matter equal importance along with questions of increased trade, hemisphere defense, democratic processes and action against Communism.[6]

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[6] Below the text of this memorandum appears the following handwritten note initialed by Mr. Bennett: "One of the reasons for Dr. Eisenhower's great success in B[uenos] A[ires] was that he kept his visit on an entirely informal basis. Peron has indicated his awareness of the distinction between that & the Miller approach."

611.35/8-1754

Paper Prepared in the Office of South American Affairs[1]

CONFIDENTIAL [WASHINGTON,] August 17, 1954.

BALANCE SHEET: U.S.-ARGENTINE RELATIONS

WHAT UNITED STATES WANTS FROM ARGENTINA

1. Cooperation against Communism. (This includes such bilateral cooperation as we may ask for, control of Communism within Argentina and support of our position in multilateral organizations.)
2. Cooperation on hemisphere defense policies and measures.
3. Cooperation on US policies regarding East-West trade. (Battle Act,[2] etc.)
4. An agreement by which US would obtain uranium from Argentina. (Negotiations[3] now in progress.)
5. Good relations between US and Argentine labor organizations. This is a delicate problem and has not been a subject of formal discussion between our governments. (Obstacles continue to be: a) Argentine labor policies and b) US labor reaction thereto.)

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[1] Drafted by Mr. Dearborn.

[2] Reference is to the Mutual Defense Assistance Control Act of 1951 (Public Law 213), called the Battle Act after Representative Laurie C. Battle of Alabama, approved Oct. 26, 1951; for text, see 65 Stat. 644.

[3] Documents pertaining to this subject are in file 835.2546.

6. Resumption as soon as possible of profit remittances. (US interests have over $80 million worth of pesos in Argentina which they are unable to remit owing to Argentina's lack of dollar exchange.)

7. Argentine action to resolve outstanding problems of American meat packers in Argentina.

8. Argentine action to resolve the American & Foreign Power Company problem.

9. Argentine action to remove discriminations against US shipping (especially requirements that certain cargo be carried in Argentine bottoms).

10. Argentine compliance with certain provisions of US-Argentine Trade Agreement[4] with which she is not now complying.

WHAT ARGENTINA WANTS FROM UNITED STATES

1. Noninterference by US agricultural surplus disposal programs in Argentina's normal marketing. (Argentina has recently requested that US halt nonconsultative linseed oil sales and that we take joint action with Argentina to work out means of avoiding displacement of normal Argentine markets.)

2. No US import restrictions on linseed oil, tung oil,[5] oats, meat from Tierra del Fuego, etc.

3. No increase on wool tariff.

4. Export-Import Bank financing for 120 million dollar Argentine integrated steel plant. If further Export-Import Bank financing available after this project, Argentina favors such financing for certain other projects: power plant for Buenos Aires ($26 million), compressor plants for pipeline ($3.4 million), chemical plant ($5.5 million).

5. US assistance in developing Argentina's uranium possibilities. (Negotiations now in progress with AEC.)

6. Development of certain Argentine shipyards and drydocks. (Argentina has never defined what assistance it wants in this respect.)

7. US foreign investment in certain projects, especially petroleum extraction. (As yet Argentine laws regarding foreign investment have not been sufficiently favorable to attract US capital to increase its investments, though the Argentines appear to be sincerely trying to improve their legislation.)

8. US cooperation against Communism. (Perón has suggested to us a consultative hemisphere meeting on Communism, and has made certain other specific suggestions.)

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[4] Apparent reference to the Trade Agreement, with accompanying exchanges of notes, signed at Buenos Aires, Oct. 14, 1941, and entered into force provisionally, Nov. 15, 1941, and definitively, Jan. 8, 1943; for text, see EAS No. 277, or 56 Stat. 1685.

[5] On Nov. 22, 1954, President Eisenhower announced that in view of the decision made by Argentina and Paraguay voluntarily to restrict their export of tung oil to the United States, he would take no action on the recommendation made by the U.S. Tariff Commission to establish a quota on tung oil imports. For text of the White House press release on this subject, dated Nov. 22, see Department of State *Bulletin*, Dec. 13, 1954, p. 912.

9. Argentina has shown signs of desiring harmonious labor relations with the US but this has not come about because of specific disagreements between US and Argentine labor.

Holland files, lot 52 D 295, "1954–1956"

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

SECRET [BUENOS AIRES,] September 19, 1954.

Participants: President Perón
Henry F. Holland, Assistant Secretary of State

At 9:00 a.m. on September 19, Ambassador Margueirat accompanied me to visit President Perón at his summer residence in Olivos. The President received us with the Minister of Education[2] and an aide, Sr. Renner. The five of us talked very generally for about twenty minutes. Thereupon, the others withdrew and the President and I continued talking for about two hours. The conversation generally fell into three fields.

Perón's Domestic Policy

He gave me what I assumed to be an abbreviated discussion of *Justicialismo*. He said that the traditional Latin is an intense individualist who works exclusively to improve his own personal status and with no regard for the welfare of his community. Perón is trying to preserve this personal incentive, but, at the same time, make the individual conscious of his obligation to improve the welfare of his community and country.

He pointed out that this intense individualism traditionally makes the Latin a great individual performer but a very poor member of a team. He is trying in his educational system to emphasize team athletics as a means of achieving the purpose indicated above.

He discussed at length his efforts to create employment, saying that when he took over the Government in 1946 there were four million Argentines gainfully employed, whereas there are now eight million. He described the extent to which the standard of living has generally been improved throughout the country and his plans with respect to further improvements, particularly the need to persuade people to vary their preponderantly meat diet.

He described his theories of social security and the Government's program for extending uniform retirement benefits.

He described in some detail his Five Year Plans, saying that some 800 objectives have been identified; that general stages of development have been agreed upon for the next 25 years, these being broken down into five-year periods of which detailed programs have been prepared for the next period. He said that a weakness in our efforts to combat Communism lies in the fact that Communism promises people specific definable benefits, whereas the free enterprise system does not. These programs serve as a weapon against Communism because through them the Government offers the people specific benefits superior to those offered by Communism.

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[1] Drafted by Mr. Holland.

Mr. Holland visited Argentina, Sept. 18–22, 1954. An account of his visit was transmitted to the Department of State under cover of despatch 283, from Buenos Aires, dated Sept. 29, 1954, not printed (110.15 HO/9–2954).

[2] Armando Méndez San Martín.

Perón says that he intends to place greater emphasis on private enterprise, doing everything that he can to encourage it to take over production and business in the country. He cited various examples of factories which he says he has encouraged businessmen to establish instead of having the Government undertake them. He also cited two examples of local factories which he said that the Government established and then sold to private investors. He agreed with me that the Government should do everything possible to encourage private enterprise to invest in the country's economic development and without discrimination between domestic and foreign investors.

Communism

He stated that he has records on approximately 50,000 communists and fellow travelers throughout Argentina and said that each one has assigned to him a particular individual who reports on his movements and who is assigned the duty of liquidating him in the event of war or other crisis. Thus, he said, in case of war Argentina will solve its Communist problem within a week.

He discussed at some length his cooperation with the Embassy on Communist matters[3] and the extent to which he has penetrated his local Communist organization. He states that he has agents in the highest policy levels of the local party.

He says that the local party is directed by the communist party in France which sends instructions to Prestes in Brazil who is in charge of the Communist party throughout South America. He says that he has succeeded in penetrating the Communist party in France and is frequently aware of instructions sent to the Argentine before they are received by local leaders.

He argued strongly that there must be closer cooperation between the American States in their police actions against Communists, saying that our individual efforts are nullified if a Communist sought by one Government can escape to an adjacent country and can continue his operations unmolested there. He maintains some 800 Communists in prison in Southern Argentina. When the Russian Ambassador complains, he offers to release any prisoner whose return to Russian that Government will approve.

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[3] Documentation relating to this subject is in file 735.001 for 1954.

He says that asylees returning from Guatemala will be closely supervised and that the four most dangerous agents are immediately being sent forward to Poland.

I had expected him to raise the question of a Hemisphere conference on Communism. Instead, he said that publicized programs to combat Communism were of little benefit; that our coordinated efforts should be worked out through secret conferences with carefully selected officials in each Government and reduced to secret agreements. He offered his fullest cooperation in pursuing such a plan and emphasized that any carelessness in the selection of officials with whom to deal in the other Governments would amount to a disclosure of our plans to the Communists.

As regards Argentina, in summary, he says that he is seeking to combat Communism by a course of police measures on the one hand and on the other by outdoing the Communists in popular appeal.

He described the Communist situation in Brazil, Uruguay, Chile, and Bolivia. In Brazil, he says, the Communists have penetrated the army extensively and are multiplying rapidly under the leadership of Prestes who now moves openly about the country. He says that the educational system in Uruguay is substantially penetrated and that the Uruguayan policy of complete freedom of press makes the Government powerless to combat the local Communists.

In Chile he says the situation is deteriorating rapidly and that he can foresee just what the outcome will be.

He says that he has great confidence in the President of Bolivia[4] as a strong anti-Communist, but that the great poverty of the Indians makes them particularly susceptible to Communist propaganda. The first problem there, he feels, is to raise the standard of living of the workers. He feels that the Bolivian Indian will naturally resist Communism if his minimum physical needs are satisfied.

The Rio Conference

I explained to him in considerable detail our views regarding the conference. Its basic goal must be definition of means to elevate the standard of living of the American peoples. That burden must be borne primarily by each people. Each country must seek means to assist others. We conceive that our own help will fall primarily in the field of trade, government finance, and technical aid. I described in considerable detail our Export-Import Bank policy and the opposition and criticism that we expect from those sectors which aspire to a massive grant-aid program.

He said that he was fully satisfied with our policies and promised the support of his delegation. He said that extensive loans to Latin American Governments would prejudice our prestige and relations in the Hemisphere. Of any amount loaned, 50 percent would be stolen by

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[4] Victor Paz Estenssoro.

Government officials and the remainder inefficiently invested, with the result that any benefits would have been achieved at an exorbitant price. When the people are called upon to repay such debts they are exceedingly resentful because they feel that the real benefits of the loans have gone to Government officials.

Perón urges instead a policy of loans to private enterprises, both domestic and foreign, and with the added assurance of a guarantee by the local Government. He says that Latin American Governments themselves, his own included, are notoriously poor builders and administrators. Loans to private enterprises will insure the most efficient possible utilization of money.

Miscellaneous Subjects

He talked at length about the fact that the United States spends more on propaganda than any other country in the world and achieves less. He pointed out the success of Soviet propaganda at convincing Latin America that the United States supports colonialism whereas Russia is the real champion of oppressed groups. He said that the United States in fact was the only country in the world that supported social justice without reservation, that the United States had no colonies and no aspirations for colonies, whereas Russia maintains fourteen nations in a state of slavery.

He said that in our propaganda and in our actions we should be careful to avoid anything which would offend the intense nationalism which prevails generally in Latin America and particularly in Argentina. He says that this can be achieved by greater tact in the manner in which we express our views rather than by any change in the substance of our positions.

In this connection he referred to the Antarctic, saying that the Argentine people are particularly sensitive on the subject and that any untactful statements by our government officials would create considerable resentment. On the other hand, he said that any genuine differences between us could be worked out in private conferences. He urged that the Antarctic could have no real military value to us because he was prepared to assure us whatever bases we might need in the southern part of Argentina. He argued that if we had advance assurance of harbors and military bases in southern Argentina the Antarctic wastelands would have no military significance to us.

He said that war seemed very probable and that he would be prepared to cooperate with us closely in the event of war.

He said that he had taken the position with his own generals that in the event of another war Argentina must immediately and strongly identify itself with the United States and that if Russia should prevail he and they would be the first to be executed by the Russians.

He praised Ambassador Nufer highly, saying that he was able to talk with the Ambassador without any restraint and with great confidence in his judgment.

I stressed our satisfaction with the current state of our relations and assured him of the President's interests and that of the Secretary of State in doing everything within our power to remove any problems that would place a strain on these relations. He said that he fully realized that we could not agree on every matter arising between us because each of us must defend, first, the interests of his own country, but that disagreement after a frank and friendly discussion would not prejudice our relations.

He was exceedingly cordial throughout the interview. When we finished he accompanied me on a tour through the grounds and buildings at Olivos. We visited the gymnasium, the hospital, the dining hall, the administrative buildings, and the athletic fields. Throughout the tour he stopped and talked with hundreds of school girls engaged in different activities around the place. He gets intense satisfaction out of their applause and was happy for me to see him against this background.

735.5 MSP/11-154

Memorandum by the Special Assistant to the Secretary for Mutual Security Affairs (Nolting) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

SECRET [WASHINGTON,] November 1, 1954.

Subject: Proposed telegram to Ambassador Nufer re Military Assistance for Argentina.

The attached telegram[2] to authorize the Ambassador to sound out Peron on the question of military assistance has been received in this office for concurrence. I do not feel that I can concur in this telegram for the following reasons.

In my opinion, it would be unwise and undesirable at this time for Ambassador Nufer to make any approach to Peron however informally.[3] Any suggestion or offer of military aid, however tentative or qualified, would undoubtedly be looked upon by the Argentines as a commitment.

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[1] Drafted by George S. Newman of the Office of the Special Assistant to the Secretary for Mutual Security Affairs.

[2] Attached to the source text, but not printed; it is marked "Not sent."

[3] In despatch 255, from Buenos Aires, dated Sept. 22, 1954, Ambassador Nufer requested authorization to sound out President Perón informally on possible Argentine interest in a bilateral military pact, and stated that this would be the only way to obtain a clear indication of President Perón's position on the matter. The Ambassador further stated that a military agreement was prospectively useful for furnishing Argentina with concrete evidence of U.S. goodwill. (735.5 MSP/9-2254)

As you know, at the present time we have not programmed any aid for Argentina and if we were to furnish them aid it would have to be by the diversion of funds and matériel from other programs. We are not certain that the JCS have a military mission in mind of sufficient priority to justify any such diversion of funds and matériel. Moreover, it does not seem probable that the Chiefs will establish a force basis, to be MDAP supported, that will result in an MDAP program of sufficient magnitude to be attractive to Peron. I am advised that the program originally planned for Argentina involved several AAA battalions and some support forces. This, by comparison to the Brazilian program, is not very large. If it is national policy to furnish military aid to Argentina, we should immediately take steps to have Defense include the requirements in the FY 1956 military aid program.[4] The recommendations set forth in your briefing book[5] on this subject (p. 33; also part of the attached[6] file) appear to me to be quite sound.

I believe that before any approaches are made to Peron, we should reach agreement within the Executive Branch that, as a matter of policy, military assistance should be furnished to Argentina; assure that the Joint Chiefs have a sound military mission in mind; determine that the nature and magnitude of the assistance to be furnished would probably be acceptable to Peron; and provide that the necessary resources for this program are included in the Mutual Security Program.

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[4] For documentation relating to this subject, see volume I.

[5] Not found in Department of State files.

[6] No attachments found with source text.

835.2547/11–2254

The Acting Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Administrator of the General Services Administration (Mansure)[1]

CONFIDENTIAL [WASHINGTON,] November 22, 1954.

DEAR MR. MANSURE: Reference is made to the question now under consideration in your office of whether the General Services Administration should extend its contract for the purchase of tungsten ore from the Argentine firm Minerales y Metales (MINMET). This matter has been discussed on a number of occasions between officers of this Department and of your agency.

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[1] Drafted by Mr. Dearborn; cleared with the Bureau of Inter-American Affairs and the Office of International Materials Policy.

The Department of State understands that the contract in question provides a schedule of deliveries beginning in 1952 and running through June 30, 1958. This schedule was revised July 17, 1952. The contractor has made only small deliveries against this schedule and those were made early in the contract period. The contractor claims he has been prevented from developing his properties and delivering material because he was unable to place orders for machinery and get delivery in 1951, due to the economic controls exercised in the United States at that time. The Export-Import Bank loan that accompanied the purchase contract required that it be spent for United States materials. His machinery has only recently arrived in Argentina.

The contract contains a provision that permits the contractor to claim *force majeure* for a maximum of 270 days. If deliveries are not made on schedule after that time has elapsed, the United States Government may, at its option, further extend the suspension period or cancel the contract. MINMET has requested that the GSA extend the *force majeure* period and permit the company to deliver the full amount under the contract. It is understood that the GSA has taken no action under its option either to extend the suspension period or to cancel the contract, and that the company is not willing to proceed further with its development until it is assured its deliveries will be accepted.

At a meeting in Mr. Eberly's office on July 7, 1954,[2] it was decided to postpone a decision until we should have an opportunity to obtain the opinion of the American Embassy in Buenos Aires as to the possible effect of cancellation on over-all relations between Argentina and the United States. The Embassy submitted its opinion in its despatch no. 83 of August 2, 1954,[3] copies of which were sent to the General Services Administration.

As you will have noted from the mentioned despatch, the Embassy has informed the Department that it is convinced that a cancellation of the GSA–MINMET contract might well "jeopardize the present United States-Argentina *rapprochement*", and at the very least the adverse consequences would far outweigh any possible temporary financial advantage to the United States that might come from the action. On September 20, Mr. Henry F. Holland, Assistant Secretary of State for Inter-American Affairs was visiting Argentina and he discussed the effects of cancellation with the Ambassador. As a result of the discussion, the Ambassador cabled[4] the Department that it was the considered opinion of the Embassy and Mr. Holland that cancellation would unduly jeopardize United States relations with Argentina.

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[2] No record of this meeting was found in Department of State files.

[3] Not printed (835.2547/8–254).

In view of the opinion of the Embassy and the Assistant Secretary of State this Department on political grounds strongly opposes a cancellation of the MINMET contract. Argentina is a key country in Western Hemisphere defense. During the past fifteen months our relations with that country have improved markedly over their previous status. This improvement has been achieved as a result of several years of careful implementation of a considered United States policy which has been directed towards inducing Argentina to better our bilateral relations and to collaborate with the United States on important world issues. The Embassy's despatch no. 83 and its cable of September 20 in effect inform us that a cancellation of the MINMET contract might well bring about a major setback in the relationship which has been attained and which has been brought about basically in the interest of the security of the United States.

Aside from that aspect of this problem having to do with United States-Argentine relations, this Department is concerned about the adverse effect which cancellation of the MINMET contract may have on the comparative success or failure of United States objectives at the Economic Conference of the American republics which is scheduled to meet in Rio de Janeiro on November 22. We have been striving to resolve as many of our bilateral problems with the other American republics as possible before that Conference so that the atmosphere for constructive discussion will be improved and so that the meeting will not be taken up with numerous particular grievances of the various participants against the United States. We have been especially desirous of resolving our bilateral problems with Argentina because, being one of the largest and most influential Latin American countries, it is in a key position to contribute to the success or failure of the Conference. Through its effect on our Argentine relations, therefore, the cancellation of the MINMET contract could have an adverse effect on our foreign policy objectives at Rio de Janeiro.

If the contract is not cancelled, it would seem necessary and desirable to negotiate an amendment. The Department understands that Mr. Otto Tolerund of MINMET is now in Washington for the purpose of arriving at a satisfactory settlement of this problem and the American Embassy in Buenos Aires has informed the Department confidentially that Mr. Tolerund is authorized in his negotiation to omit from further consideration the deliveries which failed to be made and to consider only future quantities due. This would seem to be a promising beginning toward a compromise settlement which would alleviate hardships on the part of the contractor, lessen the grounds for criticism of the United States by Argentina and other Latin American countries, and, at the same time, substantially reduce United States commitments to buy tungsten.

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[4] Reference is to telegram 164, from Buenos Aires, dated Sept. 20, 1954, not printed (835.2547/9–2054).

In the light of the considerations referred to in this letter, I urge in the national interest that the MINMET contract not be cancelled.[5]

Sincerely yours, THORSTEN V. KALIJARVI

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[5] The question of the extension or cancellation of the MINMET contract was not resolved in 1954.

Holland files, lot 52 D 295, "1954–1956"

Memorandum of Conversation With President Perón, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

SECRET DECEMBER 6, 1954.

I made more or less the following statements to the President. I came to Argentina for two purposes.[2] First, to report to him our analysis of the results of the Rio Conference, and second, to give him my interpretation of the general situation in the United States, particularly as it affects our relations with Argentina.

The greatest importance of the Rio Conference to the United States was that it forced us to review our economic policies in Latin America and to achieve substantial unanimity within our Government as to what those policies should be. We did that during the interim after the Caracas Conference and, to a greater degree than has been true in past years, today we have a rather clear economic policy for the Hemisphere, one that has general support throughout the Government and the Congress.

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[1] Drafted by Mr. Holland; this conversation took place at President Perón's summer home in Olivos. Mr. Holland was in Argentina between Dec. 4 and 8, 1954.

[2] In a memorandum of conversation between the heads of the U.S. Delegation to the Rio Economic Conference, drafted by Mr. Cale and dated Dec. 2, 1954, Mr. Holland is recorded as having stated that he would be happy to go to Argentina if there was agreement on specific objectives he should seek, and Under Secretary Hoover is recorded as having replied "that he was inclined to the view that Mr. Holland should make the trip even though it may not be possible for him to get any definite action taken by the Argentine Government while he is there." (OAS files, lot 60 D 665, "Memoranda of Conversation")

The principal features of that policy are expansion of credit and economic development; expansion of Inter-American commerce with greater assurance that access to United States markets will not be impaired and, finally, greater emphasis on measures which will encourage private enterprise to be more active in the Hemisphere.

Another very important feature of the Rio Conference is that it represented something of a frontal collision between two schools of economic thought; first, those men who sincerely feel that the interests of our peoples would be best served by increasing socialism among governments, greater intervention of government in business and displacement of private enterprise. The opposing view is that of the United States and Argentina which views private enterprise as the principal factor in economic development.

For some years we have observed a gradual and increasing trend toward socialism among the governments of Latin America. The Communists strongly support all such movements because they lead to conditions favorable to the eventual control of governments by communism. We feel that at the Rio Conference there was a rather sharp collision between those two schools of thought, and that the Conference largely committed itself to the economic philosophies of Argentina and the United States.

Finally, I attributed great importance to the fact that the Conference gave Secretary Humphrey an opportunity to know much of Latin America at firsthand. He obviously left the Conference enthusiastically interested in the future development of Latin America and determined to see that the policies announced by the United States Delegation are positively implemented.

At this point the President interrupted me and said that when he came into power in Argentina the country had for years undergone a process of Marxist indoctrination. If he had from the outset supported the private enterprise system he would have been discredited and would never have achieved the support of the people. On the contrary, in the first years he had taken a strongly Marxist point of view to capture the support of masses who were predisposed in that direction. He had gradually shifted his position to the right bringing the people with him. He now feels that they will support him, is openly anti-Communist and pro free enterprise position.

I then told the President that I would like to give him my own analysis of the current situation in the United States.

Today our Latin American economic policies reflect the views of those men like Secretary Dulles, Dr. Milton Eisenhower, Senator Capehart[3] and Mr. Randall[4] who are well known to support strengthening our commercial ties and expanding our financial support for the economic development of the Hemisphere. These views have the full support of the President and also of Secretary Humphrey in which as regard to Argentina, there is no feature of our relations within the Hemisphere to which we today accord greater importance than our steadily increasing cooperation with Argentina. We feel this has great significance to the security of the Hemisphere, because, situated as we are, the two nations can by close cooperation go far toward assuring the security of the Americas.

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[3] Homer E. Capehart (R.–Ind.), Chairman, Senate Banking and Currency Committee.

[4] Clarence B. Randall, Chairman, President's Commission on Foreign Economic Policy, 1953–1954, and subsequently Special Consultant to the President for Foreign Economic Affairs.

I feel that our current cooperation can also have important economic significance. In this connection I cited the successful results of our efforts to avoid the establishment of a quota for tung oil and our own avoidance of negotiations on Brazilian wheat which could have prejudiced Argentina's normal trading relations. I also mentioned our close cooperation at the Rio and Montevideo Conferences.

Our policy of strengthening relations with Argentina is criticized by certain sectors in the United States and, perhaps, by groups in Argentina. He agreed that this was true.

When I returned from my trip in September I was criticized for the obvious pleasure and satisfaction caused me by courtesies which he had so kindly extended me. When the Czechoslovakian steel mill was exported from the United States to Argentina these same groups were very active in their criticism of the United States administration for permitting such an export.

Our own policy with respect to these anti-Argentine groups will be to seek opportunities to demonstrate the importance which we attribute to closer cooperation between us and to seek opportunities to dispel misapprehensions and misunderstandings which can obstruct our policy of bringing the two nations closer to each other.

While I have been invited to stop off in several Latin American capitals in the course of my present trip I have declined to do so and, instead, have extended my trip to visit Buenos Aires, thus giving added evidence of the importance that we attribute to our relations.

The resumption of Export-Import Bank activity in Argentina will constitute another important demonstration of our current policy. The granting of the steel mill loan would be an excellent way for the bank to move back into this field. Announcement of that loan would undoubtedly provoke strong reaction from anti-Argentine sectors in the United States. As a leader of the Republican party Secretary

Humphrey must, of course, take into consideration such criticism and, if possible, seek to avoid it. He felt and advised Minister Cafiero that if the announcement of a loan by the Export-Import Bank could be coordinated with some move on the part of the Argentine Government it would do much to weaken the position of anti-Argentine critics in the United States.

I stated that I did not feel that this was a condition to the granting of the steel mill credit; that I would support the granting of that credit regardless of Argentina's taking any reciprocal move; that I was confident that the President would make all such moves that he could and as rapidly as possible. On the other hand, I repeated that if some step could be taken at this time by the Argentine Government it would be helpful to us.

The President said that he was ready to extend to old investments the benefits heretofore accorded only to new investments by the present law on remission of profits.[5] He asked if this would serve the purpose that I had in mind. I said that I felt it would. He said that he would give instructions that this be done immediately.

Thereupon he called Secretary Gómez Morales,[6] Minister Cafiero, Minister Remorino, Chief of Protocol Bernini,[7] Captain Renner, as well as Ambassador Nufer and Mr. Atwood. He stated his decision described above. There followed a general discussion of the subject and agreement that necessary amendments to the existing law would be submitted to the President's special session of congress.

The President stated that if I wanted to do so I could publicly announce his decision.[8]

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[5] From mid-1947, American-owned business firms in Argentina were not permitted to make profit remittances, with the exception of about a 7-month period during 1950–1951.

[6] Alfredo Gómez Morales, Argentine Secretary for Economic Affairs.

[7] Federico A. Bernini.

[8] In a memorandum of conversation with President Perón, dated Dec. 8, 1954, Mr. Holland stated that he had indicated to President Perón that it would appear presumptuous for a foreigner to make statements about Argentine internal matters, and that both President Perón and Secretary Gómez Morales, who was present during the conversation, assured him that they would make the appropriate announcement "before the first of next week." (Holland files, lot 52 D 295, "1954–1956")

On Dec. 14, Secretary Gómez Morales announced in a press conference in Buenos Aires that the government was considering the matter of profit remittances. In despatch 647, from Buenos Aires, dated Jan. 21, 1955, the Embassy informed the Department of State that on Jan. 19 the Argentine Government had issued Decree 637, which permitted foreign-owned mining and industrial enterprises to remit profits, if earned after Aug. 23, 1953, up to 8 percent a year on their invested capital (800.05135/1–2155).

BOLIVIA

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND BOLIVIA[1]

Miller files, lot 53 D 26, "Bolivia"

Memorandum by the Assistant Secretary of State for Economic Affairs (Thorp) and the Assistant Secretary of State for Inter-American Affairs (Miller) to the Secretary of State[2]

CONFIDENTIAL [WASHINGTON,] April 2, 1952.

[Subject:] Bolivian Tin Negotiations[3]

Problem

The negotiations with Bolivia on tin are deadlocked again, though in a more friendly atmosphere.

The President of Bolivia[4] has written President Truman asking him to intercede to bring about a final agreement with Bolivia on tin at a remunerative price.

The Department has been asked what its position is as to the final offer to be made to the Bolivians.

Recommendation

That the Department recommend that Mr. Miller call in the Bolivian Ambassador privately and tell him (a) that we have considered the matter carefully, (b) that there is no hope whatsoever of our giving any increase in price that would make any real difference to the really high-cost producers, (c) that in the light of President Ballivian's letter[5] we are willing to help solve their real problem through advances of $5.5 million plus technical assistance for improving tin production and urge him to try to get his government to accept $1.18 on this basis. If this is unsuccessful, we should then make a formal offer in plenary session to the Ambassador[6] and the negotiators of $1.20 F.O.B. for one year only plus a $5.5 million line of credit specifically for improvement of facilities, informing them that this is the President's final decision.

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[1] Continued from *Foreign Relations*, 1951, vol. II, pp. 1141 ff.

[2] Drafted by the Director of the Office of International Materials Policy, Winthrop G. Brown.

[3] The referenced negotiations had commenced in Washington on Mar. 13, 1952. Defense Materials Procurement Administrator Jess Larson headed the U.S. negotiating team, which also included Reconstruction Finance Corporation Administrator Harry A. McDonald, and representatives of the Department of State (Mr. Brown) and the General Services Administration. Pertinent documentation is in Department of State file 824.2544 for 1952.

[4] Brig. Gen. Hugo Ballivián Rojas.

[5] The referenced letter, dated Mar. 22, 1952, along with an undated draft reply, is in file 824.2544/3–2252.

[6] Ricardo Martínez Vargas.

Background

The facts are as follows.

The Singapore market price has been approximately $1.18 for the last month. On March 26 it sagged to $1.17875, recovering to $1.18 even yesterday.

RFC has signed up for 20,000 tons with the British, 18–20,000 tons with the Indonesians, and 7–9,000 tons with the Belgians, all at $1.18 F.O.B. We have agreed with each that if we pay Bolivia a better price they will get it also.

RFC has purchased 5,800 tons since January at $1.18 in spot purchases. This inflow is continuing.

The International Tin Study Group Report[7] shows that tin production exceeded free-world consumption by 24,000 tons last year. The consumption figure, however, does not allow for United States stockpile demand, which is still considerable.

The Bolivian negotiator, Dr. Hochschild, is insisting on $1.30 F.O.B. Indications from La Paz are that the Bolivian Government would consider settling for $1.25. Up until a few days ago Mr. Larson and General Wilson would have recommended $1.20, but with the Singapore price steadily at $1.18 they now do not see how they can go above that figure.

Most of the tin for which we have contracted is metal, but there is enough ore to keep the Texas City smelter going on a very reduced and uneconomical basis for 1952. The Bolivian ore is necessary to keep the smelter going at anything like capacity and thereby to avoid large operating losses.

If we stick to $1.18, we will almost certainly get the Bolivian tin eventually. They have no other place in which to sell it. But Bolivia might well try a number of expedients before giving in. She might depend on the concerted pressure of Latin American countries, in the OAS or otherwise, to get her a higher price. She might appeal to Argentina or Brazil for economic aid. She might curtail production.

The Bolivians are convinced that the British were induced to accept $1.18 because of the steel we gave them, the Indonesians because of the credits we have given them plus a two-year contract, and both of these countries and the Belgians because they knew that, under their contracts, if the Bolivians got a better price they would benefit.

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[7] Apparent reference to the report entitled *Tin 1950–1951: A Review of the World Tin Industry* (The Hague, Netherlands, International Tin Study Group, 1951). The International Tin Study Group was established pursuant to recommendations approved at the World Tin Conference, held in London, October 1946; it met for the first time in April 1947.

We have considered and rejected the possibility of giving the Bolivians a reduction in their smelting charges. We have rejected this because the smelter is now losing money at present charges. The only other sweetener that we can find for the package is a possible offer of financing of from 5–6 million dollars for facilities to improve the quantity and quality of the Bolivian ore, which GSA is now seriously considering. This would particularly benefit the small Bolivian miners and would be very helpful. But it would be something they would have to pay back with interest. There are also certain other loans, not related to tin, which have been under consideration by the Export-Import Bank for some time and which are making good progress. If they are to be approved anyway, it would be very helpful to do it as part of this package.

We have come up from 99 cents F.O.B. to $1.18 F.O.B. in the price since last summer. The market price at Singapore has come down to $1.18. The $1.18 price would be adjusted retroactively to cover the approximately 1,800 tons the Bolivians shipped us last September and the approximately 12,000 tons they now have at port. They would gladly have accepted $1.18 six months ago. Nevertheless, they maintain that no settlement would be just and equitable unless it recognizes their higher costs and gives them a slightly better deal than the British, the Indonesians and the Belgians. They quote the Johnson Committee report[8] statement that they should get a premium because of their high costs.

We cannot pay them enough to meet the problem of their very highest-cost producers. But some extra payment will probably save enough face to permit a reasonably amicable settlement.

It is ARA's opinion that without such extra payment there will probably be a further prolonged deadlock. We should make sure of this if possible.

Since any price we give the Bolivians will have to be passed on to the British, the Indonesians and the Belgians, every extra cent a pound we pay the Bolivians would cost us approximately an extra $1,250,000 per year, of which the Bolivians would get about $400,000.

This situation has two essential elements:

1. How badly do we want fairly prompt shipments of the Bolivian ore necessary to keep the Texas City smelter in operation on some sort of economical basis? If there is any reasonable argument that it is worth an extra 2 or 3 million dollars to us to get this tin promptly, the answer to the problem is easy. We should then pay approximately 2 cents more to the Bolivians.

2. How badly do we want to reach speedy agreement with the Bolivians on a basis that will save their face? We face a heavy legacy

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[8] Reference is to U.S. Senate, Preparedness Subcommittee of the Committee on Armed Services, Sixth Report, *Tin 1951* (commonly referred to as the Johnson Report, after Senator Lyndon B. Johnson (D. Tex.), Chairman of the Preparedness Subcommittee), 82d Cong., 1st Sess.

of bitterness and ill-will left by the whole recent United States-Bolivian history on tin. This has become a cause célèbre in Latin America. It has been useful to Peron[9] in stirring up anti-United States feeling. It has even caused the President of Chile[10] to intervene with President Truman on behalf of the Bolivians. This ill-will was created largely by ourselves. Two or 3 million dollars a year in increased payment for a product we need is probably not a large sum of money in view of the possible stakes involved here and the amounts of money we are spending to avoid similar dissension and ill-will in other parts of the world.

It can also fairly be argued that the price of $1.18 was not a commercial price, but was the result of shrewd bargaining by the United States; that although the two British deals each stand on their own feet, the British were certainly influenced to some extent by their desire to make a gesture for the United States and by the steel they got; and that this has fixed the price with the Indonesians and the Belgians and the current market price.

On the other hand, payment of this extra amount would invite a heavy blast of criticism from Senator Johnson and those who think like him and possibly some criticism also from the business community which now sees a falling market. The Administration, and the Department in particular, will be blamed for a political decision which imposes on American consumers a new burden of foreign aid without legislative fiat and gives an unearned windfall to the British, Indonesians and Belgians. It will be said that this is particularly improvident in a falling market and that we should have stuck to $1.18 and given the Bolivians any financial aid they need by direct assistance methods. They will point out that the extra 2 cents is pure politics, since it isn't enough to make any difference to the really high-cost producers.

The question is, therefore, should the Department acquiesce in the present inclination of GSA to stand firm on $1.18, sweetened with a line of credit for improving tin production, or should it urge upon GSA, Dr. Steelman[11] and the President that the United States pay a cent or two more?

Reasons for the Recommendation

Our recommendation is set forth above. The main reasons for it are as follows.

1. At this narrow range of choice in price the commercial, political and general interests of the United States become inextricably merged and we must be guided by the net balance.

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[9] Juan Domingo Perón, President of Argentina.

[10] Gabriel González Videla.

[11] John R. Steelman, adviser to the President.

2. When it comes to a deviation in price of a cent or two one way or the other, no one can say with certainty that $1.18 is right and $1.19 or $1.20 is wrong. One can only operate within a range. This is particularly true when we are unwilling to put the price to the test of a free market.

3. By building the Texas City smelter and buying Bolivian tin for many years, we have discouraged the Bolivians or any other country from constructing a tin smelter to use the Bolivian concentrates. By preventing private purchase in the United States and remaining out of the market for so long, we have prevented competition from determining the price of tin. We have, in effect, used our stockpile to force that price down, since in the absence of the stockpile we could never have held out as long as we did. We therefore have a moral obligation to pay a "fair price". We believe that the larger quantity of Bolivian production can be brought out profitably at $1.18 and that $1.20 would probably not be enough to take care of the higher-cost marginal producers. These points will be made by our critics and will be hard to answer. The Bolivians, however, insist that $1.18 is not a fair price to them simply because it is acceptable to lower-cost producers. It is really more a question of face than of money.

4. It is in the interest of the United States to get enough tin promptly to keep the smelter personnel and minimize operating losses.

5. The cost to the United States generally would be relatively small; the cost to the taxpayer would be negligible. There is no question of inflation or price ceilings involved.

6. The political advantage to us of settlement with Bolivia is clear. It is also in our commercial interest in a real sense because of the effect of this running sore on general relations with South America; e.g. supply of raw materials for our stockpile, the attitude of South Americans to United States investment, the supply of copper from Chile. An increase of one cent a pound in the Chilean export tax on copper would cost the United States consumer many times the amount at issue here.

7. Tough commercial bargaining does not necessarily mean haggling for the last penny and forcing a reluctant bargain. The price of $1.18 was set in exceptionally favorable circumstances, i.e. the United Kingdom deal. We cannot sustain the position that this was a purely commercial deal on tin alone.

8. To sum up: We are in a situation in which no one can say with certainty that as a purely commercial proposition $1.18 or $1.20 is exactly the right price. We cannot establish that $1.18 was arrived at on a purely commercial basis. The financial cost of the two-cent increase is comparatively small. The general interests of the United States would be significantly served by choosing the higher price. We should therefore do so if necessary to close the matter promptly.

Editorial Note

Between April 9 and 11, 1952, opposition forces led by the Movimiento Nacional Revolucionario (MNR), the party of Dr. Víctor Paz Estenssoro, overthrew the ruling military junta in Bolivia headed by President Hugo Ballivián Rojas. Extensive documentation relating to the coup is in Department of State file 724.00 for 1952.

At the Secretary's staff meeting, held April 10, 1952, Assistant Secretary Miller, in response to a question from Secretary Acheson concerning the situation in Bolivia, stated in part the following: "It is clear that this [upheaval] is an internal fight, but unfortunately it may be played up as part of our difficulties with Bolivia on tin. If there is no change in the government we will go ahead with our negotiations today, making an offer of $1.18 plus a loan for building concentration plants." (Notes of the Secretary's staff meeting, held April 10, 1952, Secretary's Staff Meetings, lot 63 D 75)

On April 13, 1952, at the Secretary's staff meeting held that day, however, Mr. Miller stated in part that "we cannot negotiate further with the Bolivians on tin because of the overthrow of the government. It will be some time before we recognize the government [established as a result of the coup]. Some elements in the present government favor nationalization [of the tin mines], but it is reported that some of the more sober officials suggest that this is unwise." (Notes of the Secretary's staff meeting, held April 13, 1952, Secretary's Staff Meetings, lot 63 D 75)

The Secretary's staff meetings, held twice a week during the period 1952–1960, were attended by the Under Secretary of State, Assistant Secretary of State, certain members of the Executive Secretariat, and certain office directors. A broad range of policy matters was discussed at these meetings, and the Secretary normally presided.

611.24/5–2752

Memorandum by the Secretary of State to the President

SECRET WASHINGTON, May 22, 1952.

Subject: Diplomatic relations with Bolivia

I would appreciate your authorization to announce some time next week continuation of diplomatic relations with Bolivia.

As you know, on April 9, 1952, a revolution broke out in La Paz on the part of the party known as the Movimiento Nacional Revolucionario (MNR) with the support of the national police and a substantial part of organized labor in Bolivia. The revolution was directed against the then ruling military junta which had been in power for a little less than one year. The military junta had taken over after the elections of May 1951 when the MNR candidate, Dr. Victor Paz

Estenssoro, won a plurality of the votes but not the majority required under the constitution. Under these circumstances the Bolivian constitution required the Congress to elect the President, but the Government of President Urriolagoitia[1] voluntarily relinquished the executive power to the army, which appointed the junta. Throughout the eleven-month period that the junta was in power there was a continuous series of plots and rumors of plots, many of which were based upon the strong conviction of certain elements, both in and out of the armed forces, that the army should not be in politics and that the MNR, having won over 40 percent of the votes in the 1951 elections, should be given a chance to run the country. The failure of the military junta to negotiate a tin contract with the United States contributed to the loss of its prestige. There is no doubt that the uprising of April 9 constituted to a large extent a spontaneous expression of public sentiment. On April 15, six days after the outbreak of the revolution, Dr. Victor Paz Estenssoro returned from an exile of six years in Argentina and Uruguay and assumed the presidency.

Despite the fact that the revolution did constitute an expression of public sentiment, the Department of State has not moved earlier to recognize the new government because of a number of confusing factors in the situation. The first prerequisite to recognition of a *de facto* government is that it have control of the national territory. We have not been certain that the present government does exercise such control. The reason for this is that during the revolution civilian fighters of the MNR broke into an arsenal and seized a large number of rifles which have continued in the possession of these civilians. Further, the revolutionists inflicted such severe damage on army forces in the La Paz area that there has been doubt whether the Bolivian army in that area is an effective force. Similar reports have reached us from the mining areas where, as you will remember, two Americans were killed in 1949 by rioting mine workers.[2] Our Chargé d'Affaires in La Paz, Mr. Thomas J. Maleady, has discussed this situation frankly with the present Foreign Minister, Mr. Walter Guevara Arze, who is completely aware of the situation and who tells us that the Bolivian Government is quietly rounding up as many of the arms as it can trace. The Foreign Minister advises us that the present government has complete control of the national police and that it is rebuilding the army.

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[1] Mamerto Urriolagoitia.

[2] For information pertaining to this incident, which occurred in May 1949, see *Foreign Relations*, 1949, vol. II, p. 525.

With regard to the question of whether or not the government is in control, another complicating factor has been the position of the present Minister of Mines and Petroleum, Juan Lechín,[3] who is head of the mine workers' union. Lechín is an extremely controversial figure of Syrian origin who has spent much of the last few years in exile in Chile and to whom the government of Paz Estenssoro owes a great debt of gratitude for the mine workers' part in overcoming army resistance to the revolution. Whereas Paz Estenssoro, his Vice President,[4] his Foreign Minister[5] and his Finance Minister[6] are moderates, Lechín and his designee as Minister of Labor, German Butrón, are, at the least, extreme radicals who have in the past shown a tendency to use violent methods, as in the abovementioned Catavi massacre of three years ago. There seems to be little doubt that there has been a struggle for power within the present government as between these two conflicting forces, but we have come to the conclusion that Paz is the ablest individual in the group and that he will stay in power. Withholding of recognition, which has had in recent days the effect of causing the scheduling of public demonstrations before various embassies in La Paz, will be an unsettling factor.

With regard to Bolivia's willingness to abide by its international obligations, the reference to this matter in the government's official note[7] requesting recognition left some doubt as to the scope of the undertaking. However, the Foreign Minister in conversations with Mr. Maleady and the President in a subsequent public statement to a *Time* correspondent have cleared this up in a manner which we consider satisfactory.

We have been extremely concerned over Lechín's program to nationalize the tin industry immediately. This concern does not arise so much out of sympathy for the Patiño and Hochschild interests who are in large part responsible for their present predicament, but because of (1) the unsettling effect which any confiscatory action would have on private investment in Latin America, including U.S.-owned copper interests in Chile and petroleum interests in Venezuela, and (2) the legal questions which would arise in regard to our ability to buy tin from confiscated mines, which difficulties would in turn create economic problems of great gravity for Bolivia. Our Chargé has discussed these matters very frankly with the Foreign Minister, and we doubt that there is anything more that we can do at this stage. Continued withholding of recognition is not going to prevent nationalization and may, in fact, have the opposite effect, namely, that of strengthening the radical elements in the government and pushing the government more in the direction of Peron. Paz Estenssoro last week named a commission to study the future status of the tin mines, but this could possibly be a stalling maneuver; and it is possible that they might settle for some arrangement similar to the Chilean Government's action on copper whereby the government becomes the sole seller.

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[3] Juan Lechín Oquendo.

[4] Hernán Siles Zuazo.

[5] Wálter Guevara Arze.

[6] Federico Gutiérrez Granier.

[7] Reference is to the Bolivian Government's note no. P-231, dated Apr. 16, 1952, transmitted to the Department of State under cover of despatch 735, dated Apr. 17, 1952, not printed (724.00/4–1752).

Another complicating factor has been the status of Bolivia's leading newspaper *La Razon*, which has been closed down since the revolution. This closing has not been the result of any deliberate action by the government, although the government has refused to furnish protection to the publishers. During and since the revolution, armed civilians threatened the plant, and the result has been that the publishers have been afraid to attempt to resume publication. While certain liberal elements in this country will attempt to make this another *La Prensa* case, the parallel is not exact since *La Razon* is the personal property of one of Bolivia's leading tin producers, Carlos Victor Aramayo, and the problem is thus indivisible from the tin problem and the feeling against the Big Three tin producers. In any event, withholding of recognition is not a lever with which to guarantee publication of *La Razon*. As conditions go back to normal in Bolivia, this situation might work itself out.

We have been in consultation with other governments in Latin America on the subject of recognition. Thus far, only Argentina, Guatemala, Paraguay and Spain have recognized. Chile and Peru are both worried about the matter, but we consider that their fears are exaggerated; it is interesting that the Chilean Ambassador in La Paz strongly disagrees with his Foreign Office. On the other hand, Brazil, which has important interests in Bolivia, wishes to proceed immediately to recognize. We believe that Brazil's views reflect those of Uruguay. Under these circumstances, since we have had an informal agreement to proceed in concert with Brazil, Chile and Peru, we are confident that we can arrange simultaneous action next week with Brazil, Chile, Uruguay and Peru and also with Venezuela and Colombia, as well as with the British and French who are awaiting our decision. We will also notify other governments in Latin America and Europe of our plans.[8]

DEAN ACHESON

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[8] A memorandum of conversation with President Truman, by Secretary Acheson, dated May 22, 1952, reads as follows: "I went over the memorandum with the President and left it with him for his consideration. He said he had been following the matter closely through the cables and had expected this recommendation and thought that it was probably the right course of action. He would like to give it some further thought" (724.02/5–2252).

President Truman approved Secretary Acheson's recommendation on May 27, 1952. On June 2, Chargé Maleady at La Paz delivered a note to Bolivian Foreign Minister Guevara Arze informing him that the United States was continuing relations with Bolivia; the text of the note, dated June 2, 1952, was transmitted to the Department of State under cover of despatch 845, dated June 3, 1952 (611.24/6–352).

824.2544/6–1752

Memorandum of Conversation, by Herbert H. Liebhafsky of the Metals and Minerals Staff

CONFIDENTIAL [WASHINGTON,] June 17, 1952.

Subject: Sale of Bolivian Tin

Participants:
OMP—Mr. Evans[1]
OMP—Mr. Bramble[2] (MMS)
OMP—Mr. Getzin[3] (MMS)
OMP—Mr. Liebhafsky (MMS)
OSA—Mr. Atwood
OSA—Mr. Hudson[4]
Mr. Walsh[5]—Emergency Procurement Service
OSA—Mr. Ammott[6]
Mr. Courand—DMPA[7]
Mr. Larson—DMPA
Mr. Rowntree—Export-Import Bank[8]
Mr. Shannon—RFC[9]
Mr. McKinnon—RFC[10]

Mr. Evans opened the meeting by stating that the Bolivian Government had decreed that the Banco Minero should be the sole exporter of all valuable minerals produced in Bolivia. The Banco Minero had given some sort of authorization to a Mr. Ditisheim,[11] who in turn was being represented in Washington by Mr. Leon Henderson, to act on its behalf. Neither Mr. Henderson nor Mr. Ditisheim has shown this authorization to United States officials but they had claimed to have an exclusive agency for sale of all Bolivian tin, including Patino concentrates. The problems requiring the most immediate solution were whether any agency of the United States Government should now recognize the monopoly of the Banco Minero and deal with it, and, if so, whether such negotiations should be carried out with Ditisheim–Henderson.

Mr. Evans pointed out that the sweeping authority granted to the Banco Minero by the Bolivian Government apparently cut across existing contracts. This raised a number of questions: (1) Would the Bolivian Government now give assurances that the Banco Minero would honor (a) existing contracts between United States Government agencies and Bolivian producers; (b) existing contracts with United States private purchasers; (c) existing contracts with other foreign governments and individuals? (2) Would the Bolivian Government also honor existing contracts if the mines were nationalized? (3) Until assurances were received from the Bolivian Government on these questions would it be wise to deal with a representative of the Banco Minero even if he proved his right to act in its behalf? (4) Was there a danger of becoming involved in litigation with present mine owners if United States agencies accepted deliveries from the Banco Minero under existing contracts with private companies? (5) Assuming that other obstacles to dealing with Ditisheim–Henderson were removed, and their claim that they were in a position to offer all Bolivian tin were substantiated, should the United States Government purchase all or any part of the Patino concentrates in spite of the long-standing arrangements between Patino and the British?

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[1] John W. Evans, Deputy Director, Office of International Materials Policy.

[2] Harlan P. Bramble, Chief, Metals and Minerals Staff.

[3] Edmund E. Getzin, Chief, Nonferrous Metals Branch, Metals and Minerals Staff.

[4] William P. Hudson.

[5] A. J. Walsh, Commissioner, Emergency Procurement Service, General Services Administration.

[6] John C. Ammott.

[7] Claude Courand.

[8] R. Henry Rowntree.

[9] Spencer S. Shannon, Special Assistant to the Administrator.

[10] Wylie F. McKinnon, Chief, Tin Division, Office of Production.

[11] Hans Ditisheim, a Swiss-born naturalized U.S. citizen.

EPS reported that it had contracts for tungsten and asbestos. Some of the former were tied to loans made by the Export-Import Bank. DMPA said it was buying columbium on open offer at premium prices. Premiums were, however, only paid to producers themselves and not to sellers who were not producers. Export-Import Bank reported that it had authorized three loans for tungsten development. There have been disbursements in connection with only one of these.

The question was raised as to whether RFC and the other procurement agencies of the United States Government could agree not to make further contracts for Bolivian minerals until Bolivia had indicated whether or not it would honor all existing contracts with United States Government agencies. It was pointed out that the only effective bargaining weapon in the hands of the United States for insuring fair treatment to the contracting agencies was the conditions under which we were willing to buy these minerals from Bolivia, and most particularly the conditions under which we were willing to buy tin.

RFC stated that from the standpoint of supply it was not at present forced to buy tin for the Texas City Smelter. It had stocks on hand and was, moreover, faced with a strike. At the same time a suggestion that RFC stop buying tin would place that agency in a difficult position, since it had had an apparently genuine offer from Ditisheim and Henderson. It was charged by Congress with operation of the smelter and tin was in overall short supply. Moreover the offer included Patino concentrates and a refusal might lead to Congressional criticism. RFC had not, however, been shown any authorization to act on behalf of the Banco Minero by Ditisheim–Henderson. RFC could only agree not to make any term contract for Bolivian tin if each interested agency sent a letter to RFC specifically requesting that it refrain from doing so.

After further discussion it was agreed that RFC would talk with the agents and ascertain their terms but not immediately conclude a contract. Meanwhile a telegram would be dispatched to La Paz for information as to whether Bolivia would honor existing contracts now and as to the mechanics of safeguarding the Export-Import Bank loans. An inquiry as to whether Bolivia had selling plans other than the Ditisheim–Henderson arrangement would be included. The telegram would also indicate that until satisfactory replies were received from Bolivia, United States Government procurement agencies would not conclude any contracts with the Banco Minero or its agents.

It was also agreed that a memorandum embodying this decision would be signed by all the participating agencies and would be given to RFC. A copy is attached.[12]

Subsequent to this meeting, further discussion among representatives of the State Department, EPS, DMPA and the Export-Import Bank led to the conclusion that the request by these agencies to the RFC should be not to make any term contract with the Banco Minero or its agents while the present uncertainty concerning nationalization of the mines persisted, and that no other purchase be made until satisfactory answers had been obtained from the Bolivian Government to the questions referred to above. It was also agreed that the proposed cable[13] be altered accordingly.

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[12] Not printed.

[13] Apparent reference to telegram 365 to La Paz, dated June 20, 1952 (824.2544/6–1952).

824.2544/7–3152

Memorandum of Conversation, by William P. Hudson of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] July 31, 1952.

Subject: Bolivian Tin

Participants: Ambassador Andrade[1]
ARA—Mr. Miller
OSA—Mr. Hudson

Having called for the first time on Mr. Miller, Ambassador Andrade said that he wished to bring up certain specific problems. By far the most important of these was tin. His principal immediate responsibility was to negotiate a contract with the Reconstruction Finance Corporation. The price to be specified in this contract was of course important, but it was less important than the length of the contract. Bolivia urgently needed a term contract with a duration of one year or more.

The Ambassador indicated that he planned to offer Patiño ores to the RFC, although he was aware that such an offer would involve legal complications which would have to be studied. He indicated that Bolivia would hope to receive a more favorable price if Patiño ores were included than if they were not.

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[1] Víctor Andrade, Bolivian Ambassador to the United States.

Mr. Miller replied that the RFC had been buying Bolivian tin and was prepared to continue doing so, on a short-term or spot basis. However, in view of certain purely commercial considerations arising out of the pending nationalization issue, the United States believed that a long-term contract at this time would be premature. The issue of nationalization was one for the sovereign people of Bolivia to decide for themselves, but it would raise problems which would make a long-term contract at this time commercially unrealistic. For example, the decisions on nationalization which remained to be taken and implemented might create questions of the ownership of the ores involved in a tin contract, and the quantity of the ores involved in a long-term contract would be difficult to predict in advance of these decisions. The United States also had to consider the interests of American citizens who were stockholders in Bolivian mining companies.

Regarding the Patiño ores, Mr. Miller supposed that the RFC would be willing to consider their purchase, but the United Kingdom was greatly interested in this matter, and there were legal complications which would require very careful study.

Ambassador Andrade remarked that he had read with interest the report[2] of the Preparedness Sub-Committee of the Senate Armed Services Committee. Mr. Miller commented that this report, which had caused certain difficulties in our relations with tin-producing countries, had not been cleared with interested executive agencies of the United States Government and thus was the view solely of the legislative branch. The executive branch agreed with some of the findings of the Sub-Committee, but disagreed with others. It was extremely unfortunate that in the heat and excitement of the tin crisis of the past year the impression of an economic battle between the United States and Bolivia, both members of the friendly community of American states, had been created. However, he could assure the Ambassador that there was no question of any such battle now, and that the Ambassador would find United States officials prepared to discuss the tin problem with him in a manner becoming members of the same friendly family of nations.

The Ambassador said that he wished to clarify the position of Leon Henderson. Mr. Henderson had had an option authorizing him to sell Bolivia's tin production, but this option had expired, and although Mr. Henderson seemed to believe that he still had some authority to offer Bolivian tin ores, this was not in fact the case. It was his personal opinion that the granting of the option had been a mistake in the first place and he was speaking officially for the Bolivian Government in saying that he himself was now the only person authorized to deal with the RFC, although he would have certain technical assistance from other Bolivian officials. [Mr. Hudson later telephoned the Ambassador to confirm an impression that in speaking of the "Henderson option" the Ambassador had been referring to the arrangement with the Banco Minero in which Hans Ditisheim had the principal interest. The Ambassador replied that this impression was correct, and that what he had said about Mr. Henderson applied also to Mr. Ditisheim.][3]

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[2] See footnote 8, p. 487.

Mr. Miller indicated that the Department had had doubts about the soundness of the Ditisheim–Henderson arrangement, and said that he wanted to assure the Ambassador that there was no need for Bolivia to employ intermediaries in dealing with the RFC.

The Ambassador said that he had heard a rumor that the United States planned shortly to permit the resumption of tin imports by private buyers, and he wondered what effect this development would have on the negotiation of a contract between Bolivia and the RFC. Mr. Hudson replied that the announcement of this action was to be made the following day, and that the American Embassy in La Paz had been requested to inform the Bolivian Government in advance. He said that this action should not make any difference in the negotiation of a contract for Bolivian ores, since the RFC would continue to purchase ores for the Texas City smelter. The resumption of United States private trade in tin might have some effect on the market, but it was the opinion of some tin experts that this effect would not be very marked, since the RFC would continue to buy and sell large quantities of tin at $1.21½. For the Ambassador's confidential information Mr. Hudson gave him a copy of a statement on this subject by the Administrator of General Services,[4] which was being released to the press for publication the following day.

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[3] Brackets in the source text.

[4] Jess Larson.

824.2544/8–1852

Memorandum of Conversation, by Milton Barall of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] August 18, 1952.

Subject: Tin Talks between RFC and the Bolivian Ambassador

Participants: Victor Andrade, Bolivian Ambassador
OSA—Mr. Atwood, Mr. Barall

Ambassador Andrade called on Mr. Atwood to report on the three meetings he has held with RFC officials to discuss the possibility of a tin contract. He said that the RFC was reluctant to enter into a long-term contract at this time because of the question of legal ownership of the ores in the event of nationalization. The Ambassador tried to dispel these fears by giving assurances that there would be no immediate question as to ownership and that any lawsuits which might be brought would first have to be taken before the Bolivian courts. Eventually, should it be felt that compensation for the mines were not adequate, a case might go into diplomatic channels. However, in view of the feeling in RFC against a long-term contract at this time, the Ambassador said he had proposed the sale of 6,000 tons of tin on a contract basis prior to September 30. Since the nationalization report is not expected before October, there would be no question as to the legality of this sale.

The Ambassador said that the Bolivian Government was taking what it considered a very reasonable stand and was trying to avoid difficulties by asking the same price as had been paid for previous spot purchases, $1.17½ cents per pound, with the smelting charges to be kept at the previous rate. He said it would be most difficult for Bolivia to accept a lower price because of the psychological factor. The Bolivian public would believe that the country was being discriminated against because of the present regime, especially since other countries were getting this price for tin under contract arrangements with the United States. The Ambassador said he was trying to work in the most friendly and cooperative way with the RFC but that his Government would be subjected to severe attacks by Hochschild and the Bolivian public if a lower price were accepted. He also pointed out that his colleagues in Latin American Embassies in Washington had displayed great interest in the tin question and had asked him directly if the Bolivian Government were being discriminated against. Thus, he claimed, RFC insistence on a lower price would cause resentment throughout Latin America and again raise the argument that Latin America is not treated as well as other areas of the world. In Bolivia, it would also be claimed that the US Government was supporting the mine owners in the fight against nationalization. Andrade reiterated that the Bolivian Government considered its price request perfectly reasonable and had not anticipated difficulties along these lines.

The Ambassador said the RFC had offered a price of only $1.17 cents per pound together with higher smelting charges. Since the difference in price of only ½ cent per pound is so slight, the Ambassador felt that the political and psychological factors far outweighed the price question and he asked Mr. Atwood's assistance in getting the RFC to agree to pay $1.17½. He said the problem of smelter charges could be taken up at a later date in connection with a long-term contract after the nationalization issue is settled.

Mr. Atwood said he understood that the Bolivian Government had allowed certain sums to the mining companies for transportation and smelter charges but that not all of this money was used for these purposes. Under the present plan, the Bolivian Government would receive more dollars, since Hochschild would no longer be able to draw benefits from the artificially low smelting charges. Mr. Atwood asked if the Ambassador could accept new smelter charges if the price of $1.17½ cents were agreed to. The Ambassador replied that this would be a better solution from the point of view of public relations since the smelter charges could be raised gradually so as to minimize the impact of the increase. The Ambassador seemed to recognize the necessity for an eventual increase in the smelter charge. He said the Bolivian Government has been cutting expenses (for example, the Army previously got 40% of the budget) and was eliminating the profiteering of the middleman. By following its new economic policy the government will be in a good economic position. Thus, they could take ½ cent less on the price of tin without going into bankruptcy but the psychological effect might be disastrous.

Mr. Atwood explained that unless our advice were specifically requested State had not participated in the discussions of the tin question and that the RFC had been acting on its own. He explained that the RFC had responsibilities toward Congress and was required to explain why the Texas City smelter operated at a loss. They had been able to do this in the past on the basis of strategic necessity but this argument will not continue to be valid and an increase in smelter charges would be necessary. Mr. Atwood agreed with the Ambassador that the timing of the increase would have to be worked out carefully. Mr. Atwood expressed appreciation of the Ambassador's point of view and said he would discuss the problem in the State Department and then with the RFC to see if we can help in bringing about a mutually satisfactory agreement. Mr. Atwood made it clear that the ores under discussion were separate from those to be shipped to England inasmuch as the British Government considered that they have a contract through Williams-Harvey to purchase Patiño ores for their smelters.

The Ambassador said that eventually Bolivia will wish to discuss the financing of a leaching plant to improve the concentration of ores—perhaps up to 60%. This would make it better for the Texas City smelter and minimize the question of smelter charges. Then he repeated that all he was seeking at the present time was an orderly method of selling tin prior to nationalization, leaving the other complications for later discussion.

The Ambassador added that there were also many intermediaries, such as Henderson and Ditisheim, who were trying to cut in on Bolivian tin. These two gentlemen continue to insist on their offer of 80% in cash and 20% in machinery. Andrade said that he was very much opposed to this type of arrangement because it would protect a monopoly market and disrupt free enterprise channels. It would also deprive those who now import machinery from the US of their commissions. The Ambassador feels that no intermediaries are needed but expressed the fear that they may offer a higher price for tin tha. the

RFC, then sell the ores to the RFC at a loss in order to get a monopoly market in Bolivia. He reported that the RFC said it could not refuse to buy from intermediaries if they offered to sell at a lower price, even though the RFC was not in favor of their getting into the act. This is another reason for achieving promptly a reasonable agreement between the RFC and the Bolivian Government.

The Ambassador then called Mr. Atwood's attention to another problem which he hoped could be worked out satisfactorily. He said he had talked with Mr. Larson of GSA and with Mr. Gaston of the Eximbank about the contracts between GSA and tungsten producers in Bolivia, to whom the Eximbank had made loans for the purpose of increasing production. The Ambassador said the interests of the Bolivian Government and the GSA coincided in this matter since both are interested in increased production. Andrade was to see Mr. Gaston this afternoon and expressed the hope that no difficulties would arise. With the Banco Minero designated to control exports of metals, the Bolivian Government feels that tungsten sales should also come under its jurisdiction. The Banco Minero is willing to act as agent for the producers or to take over the contracts and assure delivery of the tungsten. Mr. Larson was reported as having no objection to any internal arrangements made in Bolivia, provided that tungsten production is increased and shipments to the US continue. The Ambassador said he hoped to obtain Mr. Gaston's approval to the assumption of responsibility for Eximbank loans by the Banco Minero. He assured Mr. Atwood that the money loaned by the Eximbank would be used exclusively to increase production and that earnings would be used to repay the loans.

Mr. Atwood explained that it was necessary to avoid pooling the tungsten so that the identity of the producer would not be lost. He said that if the Bolivian Government can assure that the money would be paid to the producers and used for the purposes stated in the agreements the Eximbank would probably have no objection to the Bolivian plan.* Mr. Atwood spoke of the long range importance of tungsten as a dollar earner for Bolivia since tin was now in a surplus position and therefore could not be counted on as a continuous source of high dollar income. The Ambassador agreed with Mr. Atwood that economic diversification and increased agricultural production are essential to the economic well-being of Bolivia. He explained that the Government had certain long range plans to bring this about and that it was trying to accumulate a good dollar reserve so as to bring the official and unofficial rates of exchange into balance, this type of measure being necessary to promote increased production within Bolivia.

**Note*: In a telephone conversation between Ambassador Andrade and Mr. Barall, this date, the Ambassador stated that he had seen Mr. Gaston and received a favorable reaction to the Bolivian proposal. The Banco Minero will prepare a draft of the proposal to be submitted to the Eximbank by the Ambassador. [Footnote in the source text.]

824.2544/9–852: Telegram

The Secretary of State to the Embassy in Bolivia[1]

SECRET WASHINGTON, September 8, 1952—7:28 p. m.

70. Amb[2] from Miller. Re urlet Mann Aug 18[3] we have been reviewing in Dept position we have been maintaining that RFC shd sign no long term tin contract so long as uncertainty exists re nationalization of mines. Depts position has been based on fear that signing long term contract cld be considered by Bol Govt as green light to confiscatory nationalization and that this wld have bad effect in other countries where US property rights are at stake. Statements from Chile since recent election re possible nationalization copper mines give us new cause for concern this score.

On other hand representatives of Mercantile Metal and Ore argued last week that signing of long term contract with them wld help Paz pursue more moderate course in dealing with tin mines and that our continued refusal to sign contract wld play into hands of Lechín. This argument does not appear convincing since there is no reason why Lechín cld not take credit for contract. Furthermore since Mercantile discussions with Paz latter has issued another public affirmation of intention to take over mines immed. Also we are hesitant about beginning discussions of contract while producing cos are still negotiating with Govt.

We wld appreciate ur comments on foregoing particularly on question whether immed sig long term contract with escape clause wld tend be moderating influence in re to Bol Govts tin policy or whether on other hand continued refusal to sign contract wld play into hands of Lechín. Pls bear in mind that in view of doubts as to Bol ability to pay prompt, adequate and effective compensation upon nationalization, contract wld probably have to contain broad escape clause giving RFC right to terminate contract or stop purchases upon nationalization. In this connection we have in mind possibility of extensive litigation which wld arise as to title to ores.

We realize it is difficult for you to express view on foregoing questions except in context of package deal involving econ assistance, but situation seems so confused in Bol both with regard to nationalization and otherwise that we hesitate to use even implied promise of such assistance as bargaining point at this stage. However, we wld appreciate receiving your opinion as to whether you cld effectively approach Paz at this stage to explain fully our point of view re tin. In such a conversation you might stress our willingness continue buy tin on day-to-day basis pending clarification of situation. You cld also say that once ultimate disposition of tin mines has been made either through agreement with owners or through payment of adequate and effective compensation we wld be willing work out with them a broader program of econ coop.[4]

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[1] Drafted by Assistant Secretary Miller.

[2] Edward J. Sparks was appointed Ambassador to Bolivia on Jan. 18, 1952; he arrived in La Paz on June 3 and presented his credentials on June 13, 1952.

[3] Not found in Department of State files.

ACHESON

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[4] In telegram 80, from La Paz, dated Sept. 9, 1952, addressed to Assistant Secretary Miller, Ambassador Sparks stated that both the Bolivian Government and the tin producing companies were convinced that nationalization was an imperative political necessity. He stated further that the signing of a long-term tin contract, coupled with an offer of a broad program of economic cooperation, would be a moderating influence, but that he was uncertain whether he could effectively approach President Paz Estenssoro at the present time. (824.2544/9–952)

824.054/9–1152: Telegram

The Secretary of State to the Embassy in Bolivia[1]

SECRET NIACT WASHINGTON, September 19, 1952—6:24 p. m.

80. Urtels 80 and 83.[2] Approach Paz immed re nationalization and long-term tin contract. Reiterate that we consider decision to nationalize or not one for sovereign Govt of Bol to decide but that consequences of nationalization if undertaken have important bearing on contract question. Request formal and definitive oral statement whether Bol Govt has taken irrevocable decision re nationalization and if so what this decision is. State that RFC will sign contract 1 to 1½ yrs, same price and smelter charges as offered in draft short-term contract given Canedo ($1.17 and new smelter charges) or alternative terms offered him orally ($1.17½ with different sched new smelter charges) immed upon either (*a*) a definitive decision not to nationalize or (*b*) estab form nationalization which provides prompt adequate effective compensation and protection re title ores deemed adequate by RFC. Explain that until one of these events occurs US will not negot on long-term basis either with Bol Govt or with an intermediary but that when either does occur will be perfectly willing negot directly with Govt. FYI only with regard to production of properties subj to nationalization program State may urge RFC negot only with Bol Govt rather than intermediaries because of special circumstances of present case: (1) contingency of contract on Bol Govt actions re nationalization, (2) cumbersomeness of timing if intermediary involved since RFC wld insist on giving all potential agents equal chance, (3) our desire

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[1] Drafted by Mr. Hudson; cleared with the Bureau of Inter-American Affairs and the Office of International Materials Policy, the Reconstruction Finance Corporation, and in substance with the Defense Materials Procurement Administration, the Emergency Procurement Service, and the Export-Import Bank.

[2] Regarding telegram 80, see footnote 4, *supra*. Telegram 83, from La Paz, dated Sept. 11, 1952, discussed special permission granted by the Bolivian Government to Fabulosa Mines, a medium-sized tin mining company, to negotiate a contract for the sale of its tin directly with the RFC (824.25/9–1152).

that contract benefit Bol economy which wld be in part defeated if extraordinarily onerous terms proposed by certain aspirant intermediaries were accepted. Explain also that because of fluctuations in tin market this offer cannot be held open very long but advance notice of few days will be given before its withdrawal. (FYI only offer will not be withdrawn except with reasonable notice and after consultation between State and RFC and State will consult you before concurring.) Add that when possibility of nationalization without satis compensation or of a nature which wld make Bol poor banking risk no longer a threat US will be prepared again consider broad program economic coop.

Explain frankly US purpose is offer Paz opportunity follow middle of road course, dressing up recommendations of Study Comm so as derive polit advantage but avoiding econ chaos and internatl friction which wld almost certainly follow confiscatory nationalization. Present proposal in best possible light and endeavor discreetly ascertain whether in Paz's opinion this offer gives him sufficient strength forestall nationalization or undesirable form thereof. If ur best efforts unavailing and you convinced Paz is not merely bargaining, Dept and RFC prepared consider some alternative course.

Take occasion of above conversation to remind Paz RFC offer purchase 6000 tons accumulated tin stocks and Sept production still stands.

Re Fabulosa offer RFC sees no particular advantage negot with Fabulosa and on balance wld prefer not to since wld open door possibly less attractive offers from other *medianos* and Bco Minero for production small miners.

ACHESON

824.054/9–2452:Telegram

The Ambassador in Bolivia (Sparks) to the Department of State

SECRET PRIORITY LA PAZ, September 24, 1952—6 p. m.

97. Deptels 78[1] and 80, Sept 19 discussed Saturday with Pres, Monday with Foreign Minister and Vice Pres and yesterday with Foreign Minister, Min Mines and Pres and two members Nationalization Study Commission.[2] Exhaustive conversations[3] covered all phases.

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[1] The Department's telegram 78, to La Paz, dated Sept. 19, 1952, instructed Ambassador Sparks to inform the Bolivian Government, *inter alia*, that the United States relied on the government's assurances that it would honor existing contracts between tungsten producers in Bolivia and the GSA and avoid taking action interfering with their fulfillment (824.2547/9–1952).

[2] José Nuñez Rosales and Carlos Morales Guillen.

[3] Memoranda of the referenced conversations were transmitted to the Department of State under cover of despatch 220, from La Paz, dated Sept. 29, 1952 (824.2547/9–2952).

Pres declared nationalization inevitable and asserted govt must nationalize or be ousted in which case need do so of succeeding govt wld be even more urgent. Therefore, Bolivian Govt decision nationalize is irrevocable taking place about Oct 20. Pres said expropriation will be pursuant Bolivian constitution and laws; confirmed govt will present companies with debit notes for unpaid taxes which companies cld contest in Bolivian courts and confided govt legal case against companies is convincing. Foreign Minister and others confirmed.

Since Pres admitted Bolivia's inability comply requirement prompt compensation I explored possibility mixed commission or other arrangement accepting nationalization and permitting commissions [*companies?*] continued participation but recd no encouragement. This due govt complete lack confidence in companies because their alleged past deceptions, political intervention and selfish economic policies. Pres and others wish compensate legitimate US Patino shareholders but unalterably opposed extension same treatment to Patino family Aramayo and Hochschild. President desires nationalize without internatl friction but at loss how do same and wld welcome suggestions (Pres did not mention Spanel proposal[4] Deptel 81, Sept 19.[5])

Pres said strong US position cld not be due small US investment in Patino and presumed it was US desire avoid precedent unsatis nationalization in Bolivia. View Bolivia's inability make prompt compensation Pres inquired (1) if arrangement might be worked out for payment from future tin sales or (2) if US loan cld be obtained for immed payment compensation. I observed one similar Iranian proposal and two most unlikely view undesirable precedent.

Foreign Minister and Study Commission raised complicated legal questions which I declined reply. Foreign Minister queried if US will defend Patino Company or only US shareholders; if foreign shareholders cld institute embargo proceedings in US courts. Study Commission averred US courts cld not embargo or assume jurisdiction if expropriation effected pursuant Bolivian laws.

Pres expressed desire consider further RFC offer long term tin contract but this not raised subsequent meetings probably due fact contract conditioned upon satis nationalization. Foreign Minister queried re offer 6,000 ton purchase and I said still stands.

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[4] Reference is to the plan proposed by A. N. Spanel, Chairman of the International Latex Corporation, as an alternative to the nationalization of the Big Three mining companies in Bolivia. The proposal involved the establishment of a tax-free "private" corporation having a monopoly over the production, smelting, and chemical refining of all minerals. The ownership and profits of the corporation would be divided roughly in equal shares between four groups: government, labor, management, and capital (the Big Three and other mining companies).

[5] The Department's telegram 81, to La Paz, discussed the Spanel proposal and reads in part as follows: "Dept cannot sponsor corp because among other reasons this Bol domestic problem, but wld consider this type solution as applied to Big Three only to be one of several possible satis substitutes extreme nationalization if mutually acceptable Bol Govt and mine owners." (824.054/9–1952)

Lengthy discussion re tungsten contracts but without conclusion. Foreign Minister concerned re GSA position on subrogation para 4,[6] also US support supreme resolution para 5.[7] On 4, I ventured personal opinion GSA wld first wish see if production conditions under nationalization counseled subrogation or seeking tungsten elsewhere. On 5, I explained proposed supreme resolution simply one of many possible solutions. I foresee no satisfactory solution big three tungsten contracts prior nationalization.

Pres mentioned receiving tin purchase offer $1.24 Rosario Argentina but is not considering it as probably curtain origin. Also explained many offers investment due probably risks in Europe greater than Bolivia.

SPARKS

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[6] Reference is to paragraph 4 of an Embassy memorandum, dated Sept. 20, 1952, handed to President Paz Estenssoro by Ambassador Sparks on that date. Paragraph 4 reads as follows: "The GSA [tungsten] contracts could be subrogated to the Banco Minero de Bolivia by mutual consent of the Banco Minero de Bolivia and the companies. However, GSA is unwilling to accede to the subrogation of the contracts until such time as the consequences of any nationalization which may be undertaken are known, or a decision not to nationalize is taken. The Eximbank takes a similar position with regard to the loan contracts." (824.2547/9–2952)

[7] Paragraph 5 of the Embassy memorandum of Sept. 20 reads as follows: "Pending a decision on nationalization, some such arrangement as that proposed by the [tungsten] producers to the Ministers of Finance and of Mines and Petroleum on June 19, 1952 appears desirable. GSA and Eximbank believe that the draft of a Supreme Resolution proposed by the producers appears to give the minimum requisite assurances of the fulfillment of the outstanding tungsten and tungsten loan contracts under the provisions of the [Bolivian] Export Monopoly Decree of June 2, 1952." (824.2547/9–2952)

824.054/9–2452: Telegram

The Secretary of State to the Embassy in Bolivia[1]

SECRET WASHINGTON, September 25, 1952—6:48 p. m.

86. From Miller. Ur conversations with Bol officials (urtel 97) seem to have been helpful in clearing air and establishing basis further discussion.

When you see Paz again you may confirm that our position re nationalization is not due primarily to US investment in Bol but also to other factors incl undesirability of precedent of confiscation. You might inform him we fully recognize Bol right take over mines. However, we are concerned about principles, about our responsibility protect interests US cits, and about harm which confiscatory nationalization might do to present good US-Bol relations. Moreover we are much concerned over effect of nationalization upon Bol economy because of (1) probable adverse effect upon operations (2) litigation that cld ensue, with concomitant tying up of funds, and (3) danger to Bol credit standing in general and discouragement to sound foreign private investment if no agreement is reached as to compensation. Under circumstances it seems better avoid any further discussion long-term contract. If Paz shld raise question as to our purchasing policy after nationalization without agreement as to compensation, you shld avoid discussing this but without giving impression either that we wld make a contract or that we wld refrain from any ore purchases. FYI we have not crossed this bridge and Dept policy would depend in part on consideration of Iranian problem. Your views this point wld be welcome.

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[1] Drafted by Mr. Miller; cleared in draft with Mr. Evans.

Former Sen Millard Tydings[2] conferred with Dept officials today in capacity lawyer for Hochschild and Aramayo. He requested we approach Bol Govt with proposal from him along fol lines which you are authorized in ur discretion to pass on to appropriate Bol officials. Hochschild and Aramayo accept fact nationalization inevitable and Tydings is sympathetic to Bol Govt aspirations and wishes be cooperative. He considers that from standpoint of all concerned principal issue is how to compensate cos and he believes, on basis of his experience with similar situation in another country, that he cld work out an arrangement that wld be generous to Bol and at same time wld prevent stigma on Bol Govt of outright confiscation. Apparently Tydings thinking of some apportionment of ores, which might be reconciled with Paz idea expressed to you. Tydings suggested Bol Govt might send someone up here to meet with him and explore preliminary outline of compensation agreement. He considers Wash best place for preliminary talks since RFC here, altho FYI we do not believe RFC wld want to be in position of refereeing dispute as to what is fair compensation. Also FYI, Tydings seemed to imply that cos wld recognize some claims to back taxes by Bol Govt. We do not necessarily endorse Tydings proposal but it is not inconsistent with our hope that a formula for nationalization cld be found under which our tin procurement cld go on without involving us in possible disputes with original mine owners. Consequently, if you see fit to pass on Tydings suggestion to Bol Govt, you might suggest that it occurs to us that advantage cld be taken of forthcoming visit to US of Vice Pres Siles to effect he cld be authorized talk with Tydings informally and without publicity or any prior commitment. This wld have merit from standpoint of Bol public opinion that there wld be no suggestion that negots are being carried on under duress or that Bol Govt sending emissaries to cos rather than vice versa. If you take Tydings proposal up with Bols report reaction earliest, since Tydings now planning go abroad Oct 3.

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[2] From Maryland (1926–1950).

Rovensky,[3] Patiño Board Chairman, also called at Dept today[4] to say Mariaca[5] wld present new Patiño proposal to Paz this week end (which he will show to you). We understand Bowers of Aramayo likewise presenting proposal and Hochschild has already done so. It might be helpful if you indicated to Paz that while US takes no position on details of these proposals it hopes they will serve as basis amicable examination of compensation problem.

As to legal questions raised by FonMin, these seem hypothetical at this stage and it appears best avoid discussion of them at this time. Re US stockholder interest in Patiño, we have no documentary proof whatever about this, and we believe it preferable for you to discuss question of compensation for all of the cos in the light of Bol own long-term interests rather than in light of compensating any specific US individuals. As to Paz query whether we can lend Bol money to cover cost compensation, there is obviously no possibility whatever of this and in your discretion you may disabuse Paz categorically of any such notion.

ACHESON

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[3] Joseph C. Rovensky.

[4] A memorandum of conversation between Mr. Rovensky and officers of the Department of State, dated Sept. 25, 1952, is in file 824.2544/9–2552.

[5] Alberto Mariaca Pando, Patiño representative at La Paz.

Secretary's Memoranda, lot 53 D 444, "August 1952–February 1953"

Memorandum of Conversation, by the Secretary of State[1]

RESTRICTED [WASHINGTON,] October 7, 1952.

Subject: Call of the Vice President of Bolivia

Participants:
Sr. Hernán Siles Zuazo, Vice President of Bolivia
Sr. Víctor Andrade, Ambassador of Bolivia
The Secretary
Mr. Bennett, OSA

The Vice President of Bolivia, accompanied by the Bolivian Ambassador, came in for a courtesy call during the Vice President's private visit to Washington en route to the United Nations, where he will serve as head of the Bolivian delegation to the forthcoming General Assembly.

After an exchange of amenities Sr. Siles said that he wanted to assure me that his Government was desirous of extending the fullest cooperation to the United States at the General Assembly. I thanked him for his statement and emphasized the importance of our collaboration on the issues to come before the Assembly.

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[1] Drafted by Deputy Director of the Office of South American Affairs Bennett.

I then told the Vice President that I was interested in the reported plans of his Government for the nationalization of mining activities in Bolivia but that I was not cognizant of the most recent details of the matter; I said that I would appreciate his informing me of the current status of the matter. Sr. Siles began by stating that the decision in favor of nationalization was one that had been made by the Government and the people of Bolivia and that it could be described as irrevocable. He said that the Government had appointed a study commission to make recommendations regarding the most practicable ways of implementing this nationalization decision. He indicated that what the Bolivian Government has in mind is a number of mixed companies to operate the several installations; the Government would hold 51 percent of the stock of these companies and the remainder of the stock would be open, as he put it, for acquisition by private investors. The Vice President remarked that his Government intended to use this method of operation both for existing mining activities and for any new ones, such as the exploitation of columbite which had recently been discovered. Sr. Siles stated that it was his Government's intention that the interests of American stockholders in the mining companies be fully compensated, and he said that he wanted to make it clear that the Bolivian Government did not regard the American portion of the ownership of the companies as in any way responsible for their past policies and activities. He indicated that the Government would have claims of back taxes and other charges against the companies, but he stated again that the American stockholders would receive full compensation. He went on to say that the Bolivian Government was anxious not to disturb production and the orderly flow of tin and other metals in their normal sales patterns. In that connection, he said that the Government had turned down a number of purchase offers for tin from European interests since they were not sure of the ultimate destination of the tin.

I explained to Sr. Siles that the United States Government had two principal interests in the problem: (1) that American stockholders be treated justly and equitably, and (2) that, as a friend of Bolivia, the United States is interested in that country's development and progress. I said to the Vice President that a decision whether or not to nationalize was, of course, entirely the prerogative of Bolivia and that decisions as to implementation of nationalization were similarly Bolivia's alone. I reiterated that our interests lay in ensuring that the legitimate rights of foreign investors be protected.

I went on to comment to the Vice President that, with respect to nationalization, I believed his Government has some trouble ahead. I expressed the view that the operation of mining activities would be much more complicated than the Government now apparently considers it. I continued that in my opinion one of the greatest needs of the countries of this Hemisphere at this time is for foreign investment for the development of their great resources. I said that, unfortunately, Bolivia will not get foreign investment through measures of this type.

Ambassador Andrade remarked that he would like to make a few comments on that point. He declared that the "big three" mining companies had been building up very large reserves and profits over a period of more than fifty years. He said that, despite the fact that these companies and other foreign investment had been given most liberal treatment by successive Bolivian governments, very little foreign investment had actually been attracted to Bolivia. He asserted that there is a general feeling in the Bolivian Government today that these measures of control over mining activities should have been taken twenty to thirty years ago and the resultant revenues devoted to the development of Bolivia through the construction of highways, schools, stadia and so on.

I concluded the conversation by stating once again the United States has only good will for Bolivia and that, so long as the rights of American citizens are protected, we recognize fully the right of the Bolivian Government to make its own decisions regarding the future operations of mining activities in Bolivia. We then adjourned for the taking of photographs.

Editorial Note

On October 31, 1952, President Paz Estenssoro signed a decree nationalizing the properties of the three largest tin mining companies in Bolivia (Aramayo, Hochschild, and Patiño). The decree recognized the principle of compensation and set a tentative amount to be paid for physical properties exclusive of the subsoil resources. The text of the decree, furnished to the Embassy at La Paz by the Bolivian Foreign Office prior to its signature, was transmitted to the Department of State under cover of despatch 315, dated October 30, 1952, not printed (824.2544/10–3052).

In a memorandum of conversation between Ambassador Sparks, who was in Washington for consultations during November, Mr. Mann, Mr. Evans, Deputy Legal Adviser Jack B. Tate, and others, by Stanley D. Metzger of the Legal Adviser's Office, dated November 10, 1952, Mr. Tate is recorded as having stated that the United States obligation to secure just compensation was limited to American citizens affected by the nationalization decree. He further remarked that "Ambassador Sparks' proposal for negotiation with the Bolivian Government to fix the amount of compensation owing the American interest, and to provide for payment thereof through combination with a purchase contract of tin or other means, appeared to be a feasible course of action to follow under the existing circumstances." (824.2544/11–1052)

611.24/12-952

Memorandum of Conversation, by William P. Hudson of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] December 9, 1952.

Subject: Pending U.S.-Bolivian Problems

Participants: Víctor Andrade, Ambassador of Bolivia
ARA—Mr. Mann
OSA—Mr. Hudson

Having returned late last week from a consultation visit to Bolivia, Ambassador Andrade called on Mr. Mann to discuss pending U.S.-Bolivian problems.

The first topic which he wanted to bring up, he said, was Bolivia's desperate need for a long-term tin contract. He indicated that he had in mind a contract for one year to 18 months, at the price established in RFC's Belgian and Indonesian contracts.[1] The economic need for such a contract was obvious, he said, and the psychological need was also very important. For example, one of the most serious current problems of the Bolivian Government was the hoarding of foodstuffs, which was producing acute shortages for most consumers. This hoarding was motivated by a widespread fear that the United States would not buy Bolivian tin and that imports of foodstuffs would therefore be sharply curtailed. Only a long-term contract could remove this fear. A long-term contract was also essential to prove to the people of Bolivia that the United States was not imposing economic sanctions for Bolivian nationalization.

Mr. Mann inquired what the Bolivian Government was doing to insure that the people of Bolivia knew the facts of the situation. The United States had never even considered imposing economic sanctions on Bolivia. We had been buying tin on a spot basis from the new Government and were willing to continue doing so, but the Bolivians themselves had made no offers of tin on this basis since September. He wondered why these facts were not being placed before the Bolivian people.

Ambassador Andrade remarked that this all appeared a little subtle to him. It was the first clear statement he had had, he said, that the United States was prepared to buy Bolivian tin even on a spot basis. Nevertheless, a long-term contract was what Bolivia required, for the psychological reasons which he had set forth and to enable the Bolivian Government to plan the future.

The Ambassador said that he next wanted to bring up the question of combatting Communism in Bolivia. He had talked about this matter with his Government and had made a vigorous complaint about such episodes as the anti-U.S. remarks made by Ambassador Montenegro and Mario Torres in the Caupolicán Theatre in Santiago. Such actions by representatives of the Bolivian Government were a serious undermining of his own position in the United States.

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[1] The referenced contracts, signed in March 1952, were for 2-year periods, and stipulated that the purchase price would be $1.18 at the port of shipment or $1.215 at New York.

Mr. Mann commented that the United States could not conduct the entire fight against Communism; there were some areas in which foreign governments alone could meet their domestic Communist problems by telling the truth about their relations with the United States and rejecting the temptation to make demagogic attacks on us. The Ambassador agreed, but said that the Bolivian Government would need some ammunition and the most effective ammunition would be a long-term contract.

The next point which he wanted to bring up, the Ambassador said, was the matter of compensation for shareholders of mining companies whose properties had been expropriated. Of course this was a question which in theory was entirely separate from the question of a long-term contract, but the two were in practice related since he did not believe that his Government could afford to take action regarding compensation unless it could obtain a long-term contract.

While he was in Bolivia he had convinced even the left-wingers in his party of the necessity for compensation, and he could assure us that his Government was definitely determined to make a fair arrangement with U.S. stockholders. For example, his Government was prepared to have 5% of the proceeds of a long-term contract set aside in a special Bolivian Government account which would be used in paying compensation once a determination had been made as to how much should be paid and who should receive it.

When Mr. Mann inquired whether this compensation account was to be used only for payments to American shareholders or for payments to shareholders of all nationalities, the Ambassador replied that the Bolivian Government could probably not afford to discriminate openly in favor of American citizens. Mr. Mann observed that the United States Government would probably not want to handle any funds except for its own citizens.

Mr. Mann anticipated that negotiations regarding compensation would be extremely complicated and would require a long period of time. The Department had not yet given full consideration to this problem and he could not speak with finality, but it was his personal, offhand opinion that the best procedure would be to establish immediately some machinery which both sides could be sure would ultimately produce a solution. Perhaps the best thing to do would be to set up a joint U.S.-Bolivian commission, with a provision that some impartial third party might be called in to resolve points on which agreement could not be reached. The Ambassador commented that such a procedure would amount to arbitration. He seemed receptive to the idea.

Mr. Mann then inquired whether, if some agreement could be reached to set the machinery of compensation in motion, the Bolivian Government would present this action to the Bolivian public as the result of coercion by the United States. He wondered if it might not better be presented as an arrangement which Bolivia had proposed to the United States and the latter had accepted. The Ambassador appeared to agree with this view.

Mr. Mann informed the Ambassador that the subjects which had been raised in today's meeting would be discussed thoroughly in the Department. We would do what we could to help, and he would invite the Ambassador to another conference within a few days.

824.2544/12–1752

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Under Secretary of State (Bruce)[1]

CONFIDENTIAL [WASHINGTON,] December 17, 1952.

Subject: Agreement to Negotiate Compensation Arrangement and Tin Purchasing Contract with Bolivia.

Political power in Bolivia traditionally has rested in alliances between the armed forces and the three wealthy tin-producing families of the country—Hochschild (naturalized Argentine citizen) and Patiño and Aramayo (Bolivian nationals).

Rightly or wrongly, the great majority of the Bolivian people attribute their incredibly low living standards to their alleged exploitation, over a period of many years, by the three families. Similarly, the people of Bolivia cordially dislike the armed forces because they regard them as the instrument of the tin producers and responsible for excesses against the people.

In May 1951 the MNR party, then in opposition to the government, obtained a plurality of the votes in a national election but was prevented from taking control of the government; in April 1952, the MNR, assisted by the police, led a successful revolution in which armed civilians defeated the army. One of the first measures of the MNR was to reorganize and reduce to impotence the armed forces and the police so that armed civilians, including especially the miners, now represent the principal military force in the country.

Simultaneously, the MNR regime announced its intention of nationalizing the various mining companies controlled by Hochschild, Patiño and Aramayo. In the months that followed the Department made consistent efforts to persuade the Bolivian Government to consider carefully the effect which nationalization would have on the Bolivian economy and people. We pointed out that the mining companies constituted Bolivia's only important industry; that the country was dependent on sales of tin and other minerals for nearly all of the foreign exchange required to purchase imports, including mining machinery and 40% of the food consumed by the people; that the ability of the government to continue to produce tin (including the problems of maintaining discipline in the mines and obtaining technical and managerial skills and capital equipment) should be carefully considered; that the removal of the companies would create serious problems of lack of capital and of replacing the company "pipelines" through which important quantities of food and machinery were imported; and that nationalization would invite litigation which would create serious marketing problems. With equal vigor we raised the problem of prompt, adequate and effective compensation, especially for American shareholders.

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[1] Drafted by Director of the Office of South American Affairs Atwood.

However, so strong were the internal pressures that the government proceeded on October 31, 1952, to nationalize the various companies referred to, although we were successful to the extent that the nationalization decree recognized in principle the obligation to compensate shareholders and earmarked 2% of the proceeds of the sale of minerals as a fund out of which payments would be made. The price which we paid for our strong representations was a suspicion, voiced in the United Nations and elsewhere, that we were prepared to impose economic sanctions against Bolivia in retaliation for nationalization—that the United States had constituted itself the protector of all the mining shareholders, regardless of their nationality.

On December 9 the Bolivian Ambassador informed the Department that the Bolivian people, uncertain of the future, were hoarding food with the result that there was insufficient food to meet the demand. He requested that a 12-month tin purchase contract, at the same price fixed in similar contracts with Indonesia and Belgium, be signed before Christmas. He said that such a contract would have great psychological significance for the Bolivian people.

The Ambassador also indicated that in the event (and only in the event) we were willing to sign such a contract the Bolivians might be willing to agree to arbitration of the claims of American shareholders and to the constitution of a fund with which to pay American claims out of a percentage of the RFC tin purchase price.

The arguments in favor of such a package deal (assuming the Bolivian Ambassador can carry out his suggestions, which is not certain) are:

1. This may be our best chance of obtaining compensation for American shareholders on reasonably favorable terms.

2. This may be our best chance to set a precedent of compensation to American shareholders, something of considerable importance in other Latin American countries where large, strategic industries are largely or wholly American owned.

3. Since we are in any case prepared to make spot purchases of tin, we suffer only a measurable loss in bargaining power for a twelve month period by agreeing to a "long term" contract. In exchange we minimize the risk that we will be accused of economic aggression; of defending the excesses of Patiño, Hochschild and Aramayo; and of causing the economic plight of Bolivia.

4. A collapse of the Bolivian economy might lead to the seizure of power in Bolivia by persons of extreme anti-United States orientation: Our information is that there is currently no hope of the present regime being replaced by more moderate elements.

The principal objections to this course of action are:

(1) Any term contract might well strengthen the hands of Bolivia in dealing with other stockholders. It could not only be interpreted as taking sides in favor of Bolivia but could actually affect the bargaining position of the nationalized companies.

(2) It could be interpreted as showing that the United States was not taking a sufficiently strong attitude against nationalization in general.

(3) The existence of a one-year contract would not in itself prevent a serious deterioration in Bolivia resulting from nationalization and Government operation of nationalized mining industries.

The arguments advanced by Senator Tydings (who represents foreign shareholders) *in opposition to such a package deal are:*

(1) The United States should continue to apply pressure on Bolivia until a settlement is made of the claims of all shareholders, including Bolivian and other non-American owners; otherwise the RFC, even in making spot purchases, is a "fence" for "stolen" property. (This overlooks, in our opinion, that we have no legal right to represent foreign shareholders; that there is a clear conflict of interest between American and other shareholders in so far as compensation is concerned since to put Americans in the same boat with Bolivians and others would greatly reduce the chance that we can collect for Americans; only a small proportion of the stock is owned by Americans; the importance of setting a precedent for payment to American shareholders; and our overall responsibility for maintaining hemisphere solidarity in the face of the threat represented by the Soviet bloc. It is possible, however, that the Tydings clients may be agreeable to the package deal provided we continue to help them in a more limited manner.)

(2) The precedent for payment to American nationals is of little value to us unless all Bolivian and foreign shareholders are compensated. (We do not agree. We do agree, however, that we should continue to urge compensation for all to the extent that this can be done without injury to U.S. national interests.)

(3) We are not in immediate need of Bolivian tin. (This is true However, we will need Bolivian tin within the year.)

Recommendation:

(1) That an exchange of notes be arranged wherein the Bolivian Government agrees to submit the settlement of prompt, adequate and effective compensation for bona fide US stockholders in nationalized Bolivian mining companies to a joint arbitration commission.

(2) That following the exchange of notes described in (1) above, the US Government shall agree to negotiate a 12-months contract to purchase Bolivian tin concentrates in amounts comparable to those under previous contracts with Bolivia and under conditions comparable to those of existing contracts with other countries. A percentage of payments for such concentrates would be reserved in a special fund to be used in payment of agreed compensation to US stockholders under (1) above.

(3) That to the extent it can be done without injury to our interests, we continue to recommend to Bolivia payment of all other shareholders. Irrespective, however of whether we are successful in this (and success is doubtful because of the hatred which the Bolivian people and government have for the three principal shareholders) we should proceed to deal as outlined above.

Clearances:

The above recommendation has been approved by Mr. Linder, E, and Mr. McDonald, RFC.[2]

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[2] There is no indication on the source text that Mr. Bruce approved the recommendation, but see Mr. Mann's letter to Mr. McDonald, dated Dec. 30, 1952, p. 519.

824.2544/12–2352: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL WASHINGTON, December 23, 1952—5:17 p.m.
PRIORITY

160. Amb Andrade was informed yesterday Dept prepared discuss further his Dec 9 proposal consider tin contract and compensation problems simultaneously. Re compensation he was given as a "working paper" draft of a possible arbitration agreement (text *infra*). Re contract he was told RFC prepared negot quickly and simultaneously with settlement compensation problem.

Amb appeared entirely agreeable idea arbitration and acceptance draft agreement as working paper. His only important immed comment on draft was his Govt might prefer exclude claims persons who acquired Patiño shares after Apr 9 or May 13. He believed large transfers Patiño stock had been made past few months. Dept officers agreed fictitious transfers shld not be recognized but suggested determinations this point might best be made by Arbitral Tribunal and other considerations might also make Oct 31 cutoff date preferable.

Amb expressed desire arbitration agreement be related some US-Bol treaty. He was informed Dept wld consider this matter and that Inter Amer Convention for Arbitration Pecuniary Claims signed Buenos Aires 1910[1] might provide the answer.

Amb said he wld cable Span summary draft arbitration agreement to his Govt and requested Sparks be provided exact Eng text for discussion with Bol officials La Paz.

You may now disregard request Deptel 157[2] that you delay such discussion. In ur talks with Bol officials you shld stress entire credit on Bol side initiation present negots belongs to Andrade; Dept has not dealt in this matter with any other agent and is happy present arrangement has been made directly with Bol Govt; no agent can obtain better terms than Amb himself.

Amb asked whether US willing buy Patiño ores if no agreement cld be reached with Williams Harvey. He was informed no commitment cld be made re this point and that Dept understood Brit anxious buy. Dept suggested direct frank Bol exploration of problem with Brit Emb and Williams Harvey.

It was agreed any replies to press inquiries shld be limited for time being to substance of Depts press release Dec 19.[3]

Text draft arbitration agreement fols:

Art 1. Govt Bol and Govt USA agree claims nationals USA arising consequence nationalization properties pursuant Bol Exec Decree for Nationalization Certain Mining Properties in Bol Oct 31 shall be submitted Arbitral Tribunal constituted accordance provisions Art 2 this Agreement.

Art 2(*a*). Tribunal shall consist three members one designated by Govt Bol one designated by Chairman Board Amer Arbitration Assoc and third member chosen by such two members. If either first two members not designated within (blank) days effective date this Agreement Govt USA or Govt Bol may request Pres Interntl Court Justice designate such member. If first two members unable, within period (blank) days after designation both, agree, selection third member either Govt may similarly request Pres Interntl Court Justice designate such third member.

Art 2(*b*). Decision majority members Tribunal shall be accepted as final and binding. Case death or resignation of a member successor shall be designated in manner and within period days prescribed paragraph (*a*) this Art. Event member omitting or ceasing act as such remaining two members are authorized render decisions if in agreement.

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[1] For text of the referenced convention, entered into force on Jan. 1, 1913, see 38 Stat. 1799.

[2] Department's telegram 157, dated Dec. 19, 1952, not printed (824.2544/12–1952).

[3] Reference is to press release 928; for text, see Department of State *Bulletin*, Jan. 5, 1953, p. 14.

Art 2(*c*). Proceedings Tribunal shall be governed by such rules and regulations as it may adopt.

Art 2(*d*). Compensation members Tribunal shall be fixed by special agreement between Govt Bol and Chairman Board Amer Arbitration Assoc and together with other expenses Tribunal shall be paid in equal parts by Govt Bol and US shareholders.

Art 3(*a*). Tribunal shall determine, accordance principles interntl law, justice, equity, amount compensation which as consequence nationalization referred to Art 1 this Agreement is due nationals US who on 31 Oct were bona fide and beneficial owners either directly or indirectly of rights and interests in companies or entities whose properties have been nationalized.

Art 3(*b*). Amount compensation due a shareholder shall be calculated basis total value nationalized property company or entity and shall bear same proportion such value as beneficial interest such shareholder in company or entity bears to total outstanding capital stock thereof.

Art 3(*c*). Interest on awards shall be computed at rate five per cent per annum from 31 Oct to date termination functions Tribunal under this Agreement.

Art 3(*d*). Since it desire both Govts effect expeditious determination claims encompassed this Agreement it agreed no such claims shall be disallowed or rejected by application general rule interntl law that local remedies must be exhausted as condition precedent validity or allowance any claim.

Art 4(*a*). Awards shall be entered by Tribunal in terms currency USA and shall be paid by Govt USA out of a compensation fund established exclusively for purposes this Agreement which shall consist such amounts in currency USA as may be deposited therein by Govt Bol and such amounts as Govts two countries or their agencies may agree shall be withheld by Govt USA or any authorized agency thereof pursuant any mineral purchase contract which any agency Govt USA may conclude with any agency Govt Bol.

Art 4(*b*). All sums necessary pay awards Tribunal shall be covered into fund prior expiration period (blank) years from date this Agreement.

Art 4(*c*). If it shall be determined total amounts deposited compensation fund are in excess total amount awards Tribunal Govt USA will take necessary steps return such excess to Govt Bol.

Art 5. This Agreement shall become effective on (blank).[4]

ACHESON

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[4] The Bolivian Government's draft counterproposal for an arbitration agreement was transmitted to the Department of State under cover of despatch 486, from La Paz, dated Jan. 19, 1953 (824.2544/1–1953).

824.2544/12-3052

The Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Administrator of the Reconstruction Finance Corporation (McDonald)[1]

CONFIDENTIAL [WASHINGTON,] December 30, 1952.

MY DEAR MR. MCDONALD: I think it is worth while for me to confirm in writing the agreement that has been reached between the Department and the Reconstruction Finance Corporation in Mr. Atwood's conversation with Mr. McKinnon on December 17 and in the meeting you held with Mr. Atwood, Mr. Evans and me on December 24.[2]

The enclosed memorandum to Mr. Bruce[3] sets forth the lines of the proposal to negotiate simultaneously with Bolivia a term tin contract and an agreement for the submission of American claims to impartial arbitration. This memorandum also outlines the basic reasons why the Department believes this solution is in the best interests of the United States. I am glad to confirm that Mr. Bruce has agreed to the procedure recommended in the memorandum and that the Department has already held one introductory meeting with the Bolivian Ambassador. We will, of course, keep the RFC informed of further developments and will notify you when it appears profitable for you to begin negotiations with the Bolivian Government concerning the details of the contract. In the meantime, I am sure you will agree that it is desirable that these discussions receive no publicity. I would suggest that both you and we limit our answers to any press inquiries to the substance of the statement made in the Department's press release of December 19, a copy of which is enclosed.[4]

On June 17, 1952, the Department joined with other interested agencies of the Government in urging that all procurement agencies of the United States Government refrain from negotiating any term contracts for the purchase of minerals from the Bolivian Banco Minero until satisfactory assurances could be obtained from the Bolivian Government regarding existing contracts between Bolivian producers and United States Government agencies. The Bolivian Government has now given the United States formal assurances concerning these contracts, and the original purpose of this request no longer exists. We do suggest, however, that negotiations between the RFC and Bolivia be further postponed until we have obtained the Bolivian Government's approval of the compensation agreement.[5]

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[1] Drafted by Mr. Evans.

[2] No memoranda of the referenced conversation and meeting were found in Department of State files.

[3] Not printed.

[4] Not printed. See footnote 3, *supra*.

Sincerely yours,

THOMAS C. MANN

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[5] In a letter to Secretary Acheson, dated Jan. 6, 1953, acknowledging Mr. Mann's letter, Mr. McDonald stated that negotiations for the purchase of tin concentrates from Bolivia would be postponed pending further advice from the Department of State, and also that RFC response to press inquiries would be limited to the "general tone" of the press release of Dec. 19 (824.2544/1-653).

824.2544/1-953:Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL WASHINGTON, January 9, 1953—7:58 p. m.

173. Department called in Andrade today attempt convince him grave danger delay reaching agreement regarding compensation and one-year contract. He was given unclassified material sent Embassy in Deptel 169.[1]

Andrade also informed that although situation has altered radically since December 19 US will still consider spot offers, but he was warned spot contract dangerous because (1) might produce delay in meeting urgent fundamental problem, (2) might make RFC more unwilling enter one-year contract later. Argument last paragraph Deptel 169 also used.[2] FYI Department and RFC hope Bolivians will abandon spot idea.

Andrade said would urge on his Government desirability prompt negotiation compensation agreement but Department doubts he will do this vigorously. He will also report Department prepared send representative La Paz negotiate details agreement while tin contract being negotiated here.

As possible alternative to immediate arbitration agreement Andrade said would suggest clause in tin contract setting aside 5% proceeds for compensation with provision that if no compensation agreement reached within term of contract fund should be distributed by US to Amcits in full or partial settlement their compensation claims. He was informed Department would consider such a proposal although we wondered whether it would be as fair to Bolivia as our own proposal especially as it might not result in Bolivias obtaining full release from Amcits claims.

ACHESON

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[1] Not printed (824.2544/1-753).

[2] The referenced paragraph of telegram 169 reads as follows: "Regarding spot purchase no reply has yet been given Ambassador as difficulty this respect has arisen. If subject arises you should state you have not heard from your Government this point but suggest matter largely irrelevant since spot contract conceived by Bolivians as stopgap and time remaining for decision regarding one-year contract and compensation agreement probably very short."

824.2544/1-1553

The Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Administrator of the Reconstruction Finance Corporation (McDonald)[1]

CONFIDENTIAL [WASHINGTON,] January 15, 1953.

MY DEAR MR. MCDONALD: On December 30, 1952, I wrote you to confirm the understanding which had been reached between the Reconstruction Finance Corporation and the Department of State regarding the simultaneous negotiation with the Bolivian Government of a one-year tin contract and an agreement for the compensation of American shareholders of mining companies whose properties were nationalized by the Bolivian Government October 31, 1952.

I am glad to say that progress toward the implementation of this procedure has been made in conversations with representatives of the Bolivian Government and that drafts of a compensation agreement are now under consideration here and in La Paz. I am also informed confidentially by officials of Patiño Mines and Enterprises, a corporation in which American investments in the Bolivian mining industry are concentrated, that the Bolivian Government has made an approach to the corporation regarding a direct settlement of the compensation problem. If a direct settlement is reached between the Bolivian Government and Patiño Mines there will be no necessity for an intergovernmental compensation agreement.

Meanwhile the Department of State has been informed that the Bolivian Government wishes to make a spot sale to the RFC of up to 5,000 tons of tin in concentrates. The purpose of this sale, according to the Bolivian Foreign Office, would be to cover urgent requirements of foreign exchange which will be needed for the purchase of foodstuffs during the course of negotiations for the one-year tin contract and the compensation agreement. This Department would have no objection to your making a spot purchase of non-Patiño ores produced prior to January 1, 1953, in an amount up to 5,000 tons of tin content. In fact, we consider that a refusal to make a spot purchase, including some nationalized ores, would be prejudicial to the interests of this Government, for the following reasons:

1. The making of a spot purchase will not appreciably affect our future bargaining power with Bolivia.
2. Our refusal to buy nationalized ores will be interpreted in Bolivia and elsewhere in Latin America as retaliation for nationalization and as applying economic sanctions to force Bolivia to agree against its will to an immediate settlement of the problem of compensation. There would be undesirable and perhaps serious consequences should Latin America come to believe that the United States is attempting to bring about an economic crisis in Bolivia, especially if, as currently appears

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[1] Drafted by Mr. Hudson, with the assistance of Mr. Mann; cleared with the Bureau of Economic Affairs and the Office of International Materials Policy.

entirely possible, irrespective of our attitude toward the purchase of tin, a situation of economic and political chaos should develop in Bolivia with a consequent strengthening of political elements in that country hostile to the United States. It was for this reason that Ambassador Sparks in early December, 1952 and the Department on December 19, 1952 stated, with the concurrence of the RFC, that we had not refused to make spot purchases of tin and were prepared to consider spot offers.

3. Both the Department and the Patiño interests are currently negotiating with the Bolivian Government for compensation; and, in view of the Bolivian Government's statement that it recognizes in principle its obligation to make compensation and that it is prepared to consider the creation of a fund out of which compensation can be made, it would be premature to conclude that these negotiations will not be fruitful. An attitude of hostility on our part towards Bolivia will prejudice the chance that these negotiations will be successful.

4. There are the humanitarian considerations which flow from the fact that Bolivia must import about 40% of its food and that proceeds from the sale of tin are needed to buy it.

While this Department thus recommends that you consider the current spot offer, we suggest that you make it clear to the Bolivian Ambassador that in view of the tin-supply situation you cannot commit yourself to consider any further spot offers from Bolivia and this Government must reserve its right to withdraw its own offer of a one-year contract without advance notice.[2]

Sincerely yours, THOMAS C. MANN

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[2] On Jan. 15, 1953, representatives of the RFC and Ambassador Andrade agreed to sign a spot-purchase contract for 5,000 tons of non-Patiño tin concentrates (Department's telegram 180, to La Paz, Jan. 15, 1953, 824.2544/1–1553). The cut-off date for the contract was Mar. 31, 1953, later extended to Apr. 30.

In a letter to Mr. Mann, dated Mar. 9, 1953, Mr. McDonald stated that the RFC had stipulated as part of the spot-purchase agreement that the contract in no way obligated the RFC either to additional spot-purchases of Bolivian tin or to negotiations for a long-term contract. He further commented that in view of the present United States tin situation, based on available stocks and existing contracts, the RFC proposed to notify the Bolivian Government that it was no longer interested in discussing a long-term tin contract. (824.2544/3–553)

824.2544/3–553: Telegram

The Secretary of State to the Embassy in Bolivia[1]

CONFIDENTIAL WASHINGTON, March 12, 1953—6:13 p. m.

223. Reurtel 266[2] developing situation has made it impossible grant further delay and Department has today formally advised Bolivian Ambassador that RFC no longer interested discussing one-year tin contract and that letter[3] from RFC conveying this notice in writing will be

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[1] Drafted by Mr. Hudson, with the assistance of Mr. Atwood; cleared with Mr. Mann, Mr. Evans, and the Office of the Assistant Legal Adviser for Inter-American Affairs.

[2] Not printed (824.2544/3–553).

[3] Not found in Department of State files.

given him within few days. Dept suggested news be kept confidential at least for time being and Amb stated his personal view this desirable. You should discuss this development with Bolivian authorities along following lines:

Bolivian Government will recall that in September 1952 US advised offer of term tin contract could not be held open very long. In January 1953 Bolivian Government was given detailed information about US tin supply position, was informed that term contract offer might have to be withdrawn at any time without advance notice, and was urged to act without delay to establish conditions which would make negotiation term contract possible. Department also pointed out on January 9 that spot purchase might reduce US ability enter term contract. RFC position was stated clearly to Bolivian Mining Corporation in letter of January 22[4] regarding spot contract. Since January continuing review US tin supply position has resulted in conclusion, announced publicly on February 6 by National Production Authority, that US now has under contract or available to private importers sufficient tin meet estimated requirements government and private industry. In this situation RFC's present estimate is that if it were to contract for further tin it would be exceeding authority granted it by Congress, which is limited to procurement tin for US Government and American industry. US action of giving this notice is based exclusively on foregoing considerations and US deeply regrets this situation has developed prior to conclusion mutually satisfactory arrangements regarding compensation and contract problems. US continues have friendliest feelings Government and people Bolivia and will attempt respond in positive manner to any sound Bolivian initiative for closer cooperation.

If you are asked about possibility spot purchases you should reply no answer can be given in advance since RFC ability make spot purchases will depend on situation at time of offer including US supply position.

FYI. Possibility US Government reopening discussion term contract under developing supply situation extremely poor and any justification consideration would require not only definitive action on part of Bolivia regarding compensation problem but also evidence constructive effort insure sound operation mining industry. You may in your discretion use above bring home reality situation but make every effort avoid giving Bolivians grounds charge RFC action taken as reprisal failure reach agreement compensation problem.

DULLES

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[4] Not found in Department of State files, but a portion of the referenced letter is quoted in Mr. McDonald's letter to Mr. Mann, dated Mar. 9, 1953 (see footnote 2, *supra*).

824.2544/3–1353: Telegram

The Ambassador in Bolivia (Sparks) to the Department of State

CONFIDENTIAL NIACT La Paz, March 13, 1953—8 p. m.

274. Foreign Minister called me to Foreign Office this afternoon and gave me informal account of first reactions of Cabinet which met this morning consider Andrade report on RFC decision; it is no longer interested discussing term tin contract. This problem handled in detail only by few members of Cabinet and news came as bombshell. First question was is US trying force Paz government out of office? Cabinet was unable understand why news should be kept confidential and Foreign Minister anticipated it could not be so kept. He recognized consequent situation will be grave. Government plans await details by airmail from Andrade before taking decision on formal reaction.

Discussed development along lines Deptel 223 March 12. However, Foreign Minister maintained problem is political and should be resolved between two governments and not between CMB and RFC. He admitted Bolivian Government had been on notice since September last year offer of term tin contract could not be held open very long. He added Bolivian Government had wished accept offer but US had attached political condition compensation agreement which required and still requires time to resolve. He declared compensation agreement without term contract has no meaning since if Bolivia could not sell its tin it could pay no compensation. In this connection, he reiterated his proposal Embtel 270 March 11[1] as an earnest of Bolivian intention compensate bona fide beneficiary US nationals. I stressed NPA announcement and RFC absolute legal inability exceed authority granted by Congress. However, he tenaciously sustained problems political and can be resolved only on political level. I also referred consistent tin overproduction during recent years which US had been purchasing for stockpiling purposes. Foreign Minister countered this overproduction was unreal and due to political restrictions on sales to Curtain countries; therefore, this also political.

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[1] Telegram 270, from La Paz, dated Mar. 11, 1953, reported a discussion between Ambassador Sparks and Bolivian Foreign Minister Guevara Arze and reads in part as follows: "Foreign Minister made two suggestions: (1) Compensate US nationals at stock market value Patiño shares October 31, and (2) sign term tin contract with percentage retention clause and continue negotiate compensation agreement. I argued first suggestion had merit if date were prior April 9 since decline in value attributable directly to acts Bolivian Government. View Department's previous position I remarked second suggestion did not seem practical since positions two governments now so far apart discussions could continue indefinitely." (824.2544/3–1153)

Foreign Minister was most serious, obviously concerned and disturbed, and undoubtedly reflected government's reaction. He anticipated when news is made public it will unjustifiedly be linked with attachment of the Banco Mineros funds in New York and will cause serious antipathy towards US in Bolivia. I feel certain news will be exploited not only by extreme left but also MNR party, in general, to our disadvantage. Effectively it is a blow to government from which it may not recover. Without assurance of US market for one-half its tin production Bolivian descent to economic chaos with attendant political consequences will be accelerated.

SPARKS

824.2544/3–1353: Telegram

The Secretary of State to the Embassy in Bolivia[1]

SECRET WASHINGTON, March 20, 1953—8:11 p. m.

227. Department giving careful consideration to urtels 274 and 275[2] and to possible alternatives action proposed urtel 275 but still not in position take definite step. Department also prefers defer action until Bolivian Cabinet considers matter more carefully since there are advantages to having initiative with Bolivians.

It is hoped you are having frequent and frank talks with Bolivian authorities in attempt prevent misinterpretation and convince them (1) US not engaged in power play; (2) in present purely factual situation extraordinary measures behalf Bolivia could be justified, if at all, only on basis Bolivian preparedness take sound measures solve such problems as compensation and maintenance mineral production, and initiative therefore rests with Bolivia;[3] (3) if Bolivian Government maintains problem political rather than commercial it should recognize US domestic political realities as well as Bolivian; (4) interests of neither country would be served by allowing present cooperative consideration problem degenerate into controversy, as might be case if matter not kept confidential; (5) specifically if serious Bolivian public antipathy to US anticipated by Bolivian Foreign Minister does develop it will be of no advantage to Bolivian Government and will make even more politically difficult cooperation in solution common problems.

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[1] Drafted by Mr. Hudson, cleared with Assistant Secretary Cabot and the Office of International Materials Policy.

[2] In telegram 275, from La Paz, dated Mar. 13, 1952, Ambassador Sparks inquired whether the Department was still willing to consider Foreign Minister Guevara Arze's proposal of Mar. 11, concerning compensation and the negotiation of a tin agreement (824.2544/3–1253).

[3] A memorandum of conversation between Ambassador Andrade and Mr. Cabot, drafted by Mr. Hudson, dated Mar. 13, 1952, reads in part as follows: "Mr. Cabot pointed out carefully and emphatically that the decision [of the RFC not to negotiate a long-term tin contract] had not been a political one. The Department had merely transmitted to the Ambassador a description of the factual situation in which the RFC had found itself. The decision had been taken not on grounds of policy at all but on the basis of the RFC legal position under its Congressional authority to operate. The Department was fully cognizant of the seriousness of this matter for Bolivia and was sincerely desirous of cooperating toward a solution. Since a solution would be difficult and the difficulties would increase as time went on, Mr. Cabot suggested the desirability of the Bolivian Government's acting as rapidly as possible to remove the obstacles which were within its power to remove." (824.2544/3–1353)

Regarding Foreign Minister's contention world tin surplus caused by political restrictions on sales to Curtain countries, you may wish point out total Curtain deficit, which is made up through purchases from Free World, estimated at only 5,000 to 8,000 tons, whereas Free World surplus is expected to be on order of 30,000 tons in absence stockpiling by US.

DULLES

Editorial Note

In a Foreign Office memorandum, dated April 27, 1953, the Bolivian Government informed the Embassy at La Paz that COMIBOL had initiated direct negotiations with the Aramayo, Hochschild, and Patiño interests in order to reach agreement on the question of indemnification, and also that an *ad referendum* agreement concerning tin and tungsten already had been signed with the Patiño group. Under the provisions of the agreement with Patiño, the Bolivian Government agreed, *inter alia*, to pay compensation for a period of one year (while efforts were made to estimate the total value of the properties nationalized) from funds acquired by discounting a certain percentage of the value of tin sold to the United Kingdom or to an agency of the United States; the rate of discount to increase or decrease in relation to the price of tin. The Bolivian Government's memorandum was transmitted to the Department of State under cover of despatch 696, from La Paz, dated April 28, 1953 (824.2544/4–2853).

On June 13, 1953, representatives of the Bolivian Government and the Patiño group signed at La Paz a "Definitive Agreement on Retentions", by which the Bolivian Government agreed, *inter alia*, if the price of tin remained above 80 cents per pound, to pay certain sums on account until December 31, 1954, pending the signature of a final compensation agreement. A copy of the retention agreement was transmitted to the Department of State under cover of despatch 787, dated June 15, 1953 (824.2544/6–1553).

724.11/5–753: Telegram

The Ambassador in Bolivia (Sparks) to the Department of State

CONFIDENTIAL PRIORITY LA PAZ, May 7, 1953—8 p. m.

300. Embdes 706 May 4.[1] In interview with Foreign Minister Tuesday, I vigorously protested Paz and Lechin May Day speeches. I said while texts had not yet reached Department I did not feel I need await instructions express my government's displeasure that facts were distorted,[2] Paz publicly doubted US Government sincerity and motives and Lechin charged US with economic aggression.

While regretting this development, Foreign Minister declared consensus in government and MNR Party was distrust US motives that US did not intend reach agreement with Bolivia simply marking time knowing economic deterioration would eventually cause overthrow government. Foreign Minister said he had combatted this thinking but in absence positive helpful action by US he had been unable impose his ideas. He added many people interpreted US refusal grant immunity to Banco Minero as further evidence US opposition to government. He underscored gravity present situation and need for prompt action dispel this thinking avoid economic chaos political and social disorder.

I reviewed in detail US actions asserting failure reach understanding must be attributed Bolivian insistence on premises unacceptable US and present adverse economic situation is due directly acts of Bolivian Government, to lack confidence here in Bolivia and anticipation what is to come due fall in mineral prices and inefficient operation mines. I stressed lack term contract has had only psychological effect since actually Bolivia has not yet completed delivery January spot purchase. Therefore, US cannot be blamed for Bolivia's ill.

Speeches reflecting awareness gravity situation, Paz' extemporaneous response to enthusiastic audience and need for whipping boy have caused dismay among conservative Bolivians and intensified anti-US feeling. Public statement by Department has been suggested but this might be expected result in bitter polemic and further aggravate anti-US feeling unless it also included constructive statement on term tin contract.

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[1] The referenced despatch, from La Paz, dated May 4, 1953, containing a summary text of President Paz Estenssoro's May Day speech, is in file 724.11/5–453.

[2] The Department's telegram 247, to La Paz, dated May 20, 1953, reads in part as follows:

"We approve your protest Paz Lechin speeches and suggest you take appropriate opportunities (1) to emphasize our surprise distortions in speeches and apparent deliberate campaign of hostility undertaken against United States by Bolivian Government and labor movement it presumably controls, (2) to point out danger this campaign may make it impossible Bolivian Government later obtain popular support measures cooperation with United States which it professes desire undertake, (3) to warn such a campaign might so antagonize American people and Congress as to endanger substantial United States assistance already being given Bolivia and future assistance such as term tin contract which Bolivian Government desires." (724.11/5–753)

I am now satisfied Bolivian Government is prepared settle with Big Three. It has signed agreement with Hochschild and Aramayo for retention on tungsten offering same to Patiño; is actively negotiating realistic percentage retention on tin after which will negotiate total amount of compensation. US insistence on settlement compensation problem and refusal discuss term contract generated pressure which influenced this radical change in Bolivian Government policy but this same pressure, although unintentionally applied, leaves US partially vulnerable to charges in Bolivia and Latin America. Since new Bolivian policy can be implemented only if Bolivia retains its market for tin in US, I urgently suggest prompt consideration negotiating term tin contract.

Foreign Minister again inquired regarding usefulness Lechin and his going Washington.

SPARKS

824.00/6–353

Memorandum of Conversation, by William P. Hudson of the Office of South American Affairs[1]

CONFIDENTIAL [WASHINGTON,] June 3, 1953.

Subject: The Bolivian Problem

Participants: Treasury: Assistant Secretary Overby, Mr. de Beers[2]
Export-Import Bank: General Edgerton, Mr. Sauer,[3] Mr. Stambaugh[4]
RFC: Mr. Cravens, Mr. McKinnon
International Monetary Fund: Mr. Southard,[5] United States representative
Department of State: Assistant Secretaries Cabot and Waugh,
OFD—Mr. Corbett, OMP—Mr. Bramble, OSA—Mr. Atwood, Mr. Hudson

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[1] Another memorandum of this conversation, drafted by Mr. Bramble, dated June 3, is in file 824.10/6–353.

[2] John S. DeBeers, Chief, Latin American Division, Office of International Finance.

[3] Walter C. Sauer, Vice President.

[4] Lynn U. Stambaugh, Vice Chairman, Board of Directors.

[5] Frank A. Southard, Jr.

This meeting was called by Mr. Cabot in pursuance of authorization granted him by the Acting Secretary[6] to consult other agencies of the United States Government regarding a program to forestall an economic collapse and undesirable political developments in Bolivia. The representatives of the other agencies had previously received copies of a memorandum[7] setting forth the program which the Department of State believed should be implemented for this purpose. This program is described in a memorandum sent by Mr. Cabot to the Acting Secretary on May 18, 1953.[8]

Mr. Cabot opened the meeting with a brief outline of the dangers of the Bolivian situation and a statement that the program proposed by the Department of State was a carefully integrated one designed both to meet the immediate economic crisis in Bolivia and to provide a stimulus to economic diversification, which appears to be the only long-run solution for the basic Bolivian problem. He then called on the representatives of the other agencies for comments on the program and its feasibility.

In general Mr. Overby and Mr. Southard appeared to question whether there was an immediate crisis in Bolivia, but the arguments which they subsequently developed to support their opposition to parts of the Department's program indicated that they considered the situation in Bolivia to be almost hopelessly bad.

Mr. Overby began by raising the policy question of the implications of the Bolivian program for our relations with other countries. He asked whether the United States was prepared to offset in countries all over the world foreign exchange "losses" resulting from the decline of commodity prices from the high levels reached immediately after the outbreak of the Korean War. He cited figures indicating that Bolivia's exchange receipts even at present tin prices would be higher than her receipts in most recent years. Without questioning the fact that the poverty of Bolivia was undesirable he wondered whether the assistance proposed for Bolivia was not designed rather to maintain a standard of living than to meet an immediate emergency.

Mr. Cabot explained that, while Bolivia's exchange earnings had been rising, the foolish policies of Bolivian governments had been resulting in a progressive decline of agricultural production. He feared that there might actually be a shortage of food in Bolivia in the fairly near future. The present government, he said, had taken courageous action to reverse the trend of recent years, but it would need help from the United States in order to succeed.

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[6] Walter B. Smith.

[7] Not found in Department of State files.

[8] An unsigned draft of the reference memorandum is in file 824.00/5–1853. In it Mr. Cabot recommended the following four-point program for Bolivia: (1) A three-year contract at market prices by the RFC for the purchase of Bolivian tin; (2) an increase of Point IV funds from $1.5 million to $3.5 million for an emergency food program; (3) Export-Import Bank loans up to a total of $10 million to finance projects developed for emergency food production; and (4) U.S. support for Bolivia's request to draw on the International Monetary Fund beyond the gold tranche, up to $7.5 million.

Mr. Southard also questioned whether there was a foreign exchange crisis in Bolivia. He said that the Fund's figures did not show this. The Fund understood that Bolivia had received or would shortly receive nine million dollars from the Williams Harvey smelter and 7.5 million dollars from the RFC. Offsetting Bolivia's liabilities against these receipts, the Fund calculated that Bolivia's net gold and foreign exchange holdings would shortly be in the neighborhood of 16 million dollars. Regarding food, he understood that Bolivia had used part of its gold tranche drawing to buy wheat, and that the supply of this commodity was assured through the third quarter of this year.

Mr. Atwood agreed that Bolivia was not yet bankrupt, but stated that trouble could be anticipated within a few months, when the effects of the tin price decrease and the tin production decrease began to be felt. When Mr. Overby inquired whether it might not be better to wait until an emergency actually arose and supply food if there was a threat of famine Mr. Atwood replied that if we waited that long the damage would already have been done and that what the Department of State proposed was to head it off. In the Department's view it was essential to anticipate the payments emergency and also to get started immediately on a food production program.

Mr. Southard then went specifically to the point of the proposed Bolivian Fund drawing of 7½ million dollars. Such a drawing, he said, would be more difficult from the standpoint of United States policy than a similar drawing by any other country in the world except Iran and Paraguay. Whereas usually other countries were favorable or at least neutral regarding requests for assistance from the Fund, there was here the unusual case of opposition to the Bolivian request by countries other than the United States. He had been informed by the British representative that Great Britain considered the proposed Bolivian drawing to be as inappropriate as any he had ever heard of. Other directors of the Fund thought that the Bolivian monetary stabilization program was very thin and ill-founded. They had no confidence that the new exchange rates could be maintained, that further wage increases could be prevented, that the Bolivian budget could be balanced, or that the normal economic readjustment contemplated in the Bolivian Government's program could be effected. Thus the waiver requested by Bolivia did not appear to be desirable.

Mr. Overby supported Mr. Southard by stating that if Bolivia were allowed to draw without putting up gold collateral there would be no excuse for denying the same privilege to all the other countries in the world, and the 3.2 billion dollars now in the Fund would evaporate. In summary, he said, the Fund would be making a loan which would not be paid back and it would be corrupting all its principles.

As to the possibility of a drawing against gold collateral, Mr. Southard said that there was conflicting testimony as to the Bolivian Government's attitude. While the President of the Central Bank had indicated a possibility that as a last resort Bolivia would be willing to put gold collateral in a satisfactory depository bank, a Cabinet Minister had informed our Ambassador that this would be politically impossible. He was inclined to believe that the Cabinet Minister was right, and he also wondered whether from the United States viewpoint it would be politically desirable to require Bolivia to ship her gold out of the country.

Aside from the question of Fund principles, Mr. Southard also doubted the wisdom of allowing Bolivia to draw the remainder of her quota now, because he feared that it would be spent foolishly. He did not consider it proper for Bolivia's Fund resources to be used in a short-term loan for the purchase of food. Even if the difficulties of principle could be resolved, he would therefore recommend that Bolivia not be allowed to draw more than an additional 25% of her quota, and he felt that any such drawing should be made against gold collateral.

Mr. Cabot then inquired about the RFC's attitude toward the proposed three-year market-price tin contract. Mr. Cravens replied that the RFC would be perfectly agreeable to making such a contract provided satisfactory answers could be found for two questions: (1) Was the operation of the Texas City tin smelter to be continued? and (2) How could RFC market the tin obtained under the contract? He realized the truth of Mr. Cabot's statement that a refusal to purchase Bolivia's tin would be equivalent to "cutting Bolivia's throat," but he was answering the question purely from RFC's standpoint, without reference to considerations of foreign policy or national security. On this basis he believed that the RFC would have to recommend to the President, and probably to the Congress, that the tin smelter be shut down.

Mr. Cabot inquired whether RFC would make the contract if it received a Presidential directive, or whether it would be necessary to obtain authorization from Congress. Mr. McKinnon pointed out that authority already existed for operating the smelter through June 30, 1956, but said that there was some question about appropriations for this purpose.

General Edgerton was then called on to express the views of the Export-Import Bank regarding the proposed loan for agricultural development. He said that the Bank's charter provided no basis for loans except on a project basis, and he thought that it would require a considerable period of time to work out appropriate projects. He indicated further that the Bank was rather cool toward the general idea of making any further loans to Bolivia.

824.2544/6–2253

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Cabot)

SECRET [WASHINGTON,] June 22, 1953.

Subject: Bolivian Tin

Participants: The President
The Secretary of State
The Secretary of the Treasury
Mr. Arthur S. Flemming, Director, Office of Defense Mobilization
Dr. Milton S. Eisenhower
Mr. John M. Cabot, Assistant Secretary of State

After a preliminary exchange of pleasantries, the President told Mr. Cabot to explain the problem which the latter briefly did. The President said that in his opinion the question of raw materials was vital since increasing quantities were being used everywhere while supplies were getting scarcer. It would be much better to have tin in Fort Knox than gold. The President also alluded to the security aspects of Bolivian tin. He mentioned that the Congressman from the Texas City district had first brought the matter to his attention and that it had then been further underlined by Dr. Milton Eisenhower.

Secretary Humphrey pointed out that the stockpile of 245,000 tons would be filled under existing contracts by August. The RFC was already obligated under existing contracts to take large quantities of tin at a price far above the present world market and, moreover, the average price of the stockpile tin was very high. Purchase of further tin at present contract prices would be very expensive and could not be justified. The Texas City Smelter was losing $15 million annually.

The President expressed chagrin at the heavy losses involved but again emphasized his views regarding the desirability of having raw materials.

Secretary Dulles pointed out that we tended to buy everything Latin America could produce at very high prices when we were at war and to tell them of our eternal friendship for them. Then at the end of the war, we would stop our contracts, let their economies slide, wreck the war-built production and wait until the next war before we again started to buy Latin American products at fancy prices. Someday we would find that Latin America was not willing to sell them at any price because the countries would have become unfriendly.

A general discussion then followed of prices, amounts in tonnage, the liability of an ore stockpile to deteriorate, etc. Secretary Humphrey said it would be better simply to stockpile tin ore than to continue to operate the Texas City Smelter. If we ever needed to use our ore we could build a new smelter before we used up our stockpile. Mr. Cabot brought out through a question that of the Texas City Smelter's annual loss only $2 million was due to operation and the other $13 million to the drop in prices of tin.

The President referred to the low quality of the ore and suggested that some bargaining might be done about prices. He referred tentatively to buying say 10,000 tons per annum with a two-year contract.

Mr. Cabot hurriedly sketched the Department's plan. The President thought that we could move ahead immediately on the Point IV aid and spoke of the possibility of using a tin contract as a lien to guarantee the proposed $10 million loan for agricultural development.

Secretary Humphrey pointed out that there were many areas in the U.S. which had been hit when war production ended. He mentioned particularly the coal mines. The President said that it would have been helpful if we had big coal stocks above ground; it was very difficult to explain to the soldiers in 1943 why John L. Lewis could call a coal strike.

Secretary Humphrey suggested that the matter be placed in the hands of tin experts who could come up with a really good technical solution. Dr. Milton Eisenhower emphasized the importance of doing something before his party reached La Paz and Mr. Cabot pointed out that no one could say how long the situation in Bolivia would hold together. It was generally agreed that the matter should be referred as quickly as possible to tin experts and, at Mr. Cabot's suggestion, that a representative would thereafter be sent to La Paz to negotiate a tin contract. It was felt that the announcement that such an expert would be sent would in itself be sufficient to put a fair wind behind the party's visit.

On going out, Mr. Cabot suggested that some announcement of the subject discussed might be made to the press as a means of indicating the interest in the Bolivian problem in the higher quarters. Dr. Milton Eisenhower took this up and the announcement was subsequently made.

Eisenhower Library, Eisenhower papers, Whitman file

Minutes of a Cabinet Meeting, Held at the White House, 8 a.m., July 3, 1953 [1]

CONFIDENTIAL

[Here follow a list of those present (26) and discussion of domestic matters and the general Latin American policy of the United States.]

(b) *Bolivian Tin Purchases*—Secretary Humphrey urged that the United States make an outright grant to Bolivia which could be used for developing agriculture or other aspects of an effective economy rather than continuing to purchase low-grade tin which cannot be smelted economically. Gen. Smith warned that such a policy would create much unemployment, which would foster the growth of Communism, and he urged continued stockpiling of tin. Gov. Stassen suggested that tin purchases be continued for one year while other more effective programs could be developed.

It was agreed that (a) purchase of Bolivian tin should be continued for one year to the amount of 10,000 tons,[2] (b) MSA should be prepared to undertake a solution of the Bolivian economic situation at the end of that period; (c) the decision on purchasing tin after the one year should remain open for further discussion; and (d) the establishment of a study team and other projects agreed upon at the meeting with the President on July 2nd[3] should be carried out.

[Here follows discussion of additional matters unrelated to Bolivia.]

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[1] All Cabinet officers or their representatives were present at the meeting; Under Secretary Smith represented the Secretary of State. These minutes are signed by Cabinet Secretary L. Arthur Minnich.

[2] A 1-year contract for the purchase of Bolivian tin was signed on Sept. 23, 1953, retroactive to Mar. 1, 1953 (824.2544/9–2953).

[3] No memorandum of the conversation at the referenced meeting was found in Department of State files. A memorandum by Mr. Mann to Under Secretary Smith, dated July 2, 1953, indicates that the meeting was called to consider a recommendation by Mr Flemming that a new tin stockpile be started, with purchases from Bolivia and other sources during a period of three years, and that the Texas City smelter be dismantled (711.63/7–253). In telegram 5, to Quito, dated July 3, 1953, for Dr. Eisenhower and Mr. Cabot, Acting Secretary Smith stated in part that at the meeting, attended by Messrs. Humphrey, Dodge, Cravens, Flemming, and Waugh, "tentative decison taken not to buy any tin concentrates because of domestic fiscal situation." He further stated that this decision was reconsidered by the President and the Cabinet on the morning of July 3. (120.220/7–353)

724.5 MSP/9-253

The Secretary of State to the Director of the Foreign Operations Administration (Stassen)[1]

CONFIDENTIAL [WASHINGTON,] September 2, 1953.

DEAR HAROLD: A situation dangerous to the security of the United States is developing in Bolivia, and urgent action is required to meet it. Because of a sharp drop in the price of Bolivia's principal export commodity, tin, owing to the imminent cessation of United States tin stockpiling, Bolivia faces economic chaos. Apart from humanitarian considerations, the United States cannot afford to take either of the two risks inherent in such a development: (a) the danger that Bolivia would become a focus of Communist infection in South America, and (b) the threat to the United States position in the Western Hemisphere which would be posed by the spectacle of United States indifference to the fate of another member of the inter-American community.

Various possibilities of assistance to Bolivia (including the payment of a subsidy price for tin and the extension of a balance-of-payments loan) have been examined and rejected as inconsistent with other United States policy objectives or otherwise unsuitable.[2] It would appear that the most appropriate means of assistance would be a Mutual Security Act grant for the purchase of basic foodstuffs and other essential import items, with the local currency funds generated by the grant being employed to speed Bolivia's progress toward a balanced economy which would not be dependent upon fluctuations in the world minerals market. I urge that you make an allotment of $10 to $15 million for this purpose.

I attach a memorandum[3] which sets forth this proposal in detail.

If this proposal meets with your approval, officers of the Department of State are prepared to meet with members of your staff on an urgent basis to discuss means of implementation.

Sincerely yours, JOHN FOSTER DULLES

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[1] Drafted by Mr. Hudson; cleared with the Acting Special Assistant to the Secretary for Mutual Security Affairs (Nolting) and the Bureau of Economic Affairs.

[2] Assistant Secretary Cabot's memorandum to the Secretary, dated Aug. 28, 1953, recommending a grant to Bolivia under the Mutual Security Act of 1951, as amended, reads in part as follows: "Treasury and our International Monetary Fund representative strongly opposed our supporting a Bolivian request for a Fund drawing as a partial solution of the problem. A balance-of-payments loan to Bolivia would have no satisfactory prospect of repayment. There is serious question whether the legislative history of the Famine Relief Act would make use of this authority completely appropriate to the immediate circumstances in Bolivia." (724.5 MSP/8-2853)

For text of the Mutual Security Act of 1951 (Public Law 165), approved Oct. 10, 1951, see 65 Stat. 373.

For text of the Famine Relief Act (Public Law 216), approved Aug. 7, 1953, see 67 Stat. 476.

[3] Not printed.

Secretary's Staff Meetings, lot 63 D 75

Notes of the Secretary of State's Staff Meeting, Held at the Department of State, 9:15 a. m., September 29, 1953

SECRET

SM N–168

[Here follow a list of those present (27) and discussion of matters relating to Iran, loans and assistance to Latin America, and budget hearings.]

Aid for Bolivia

6. Mr. Nolting reported that additional aid for Bolivia had been agreed to by interested government agencies and that the only question that remained was the source of funds. Mr. Stassen had proposed using $5,000,000 from appropriations for famine relief. Mr. Stassen had checked with certain members of Congress and received a favorable reaction to the use of famine relief funds. He had now prepared a memorandum [1] for the President which was in the Department for the Secretary's concurrence. Mr. Nolting's recommendation was that the Secretary sign the memorandum requesting Presidential determination in favor of using famine relief funds. Mr. Kalijarvi said that the difficulty in using famine relief funds was that the Bolivian case was a continuing problem. He recommended, however, that the Secretary sign the memorandum to the President on the condition that procedures for the use of such aid be regularized in the future. General Smith recommended that the Secretary sign the memorandum since Mr. Stassen had worked the problem out with Congressional groups. Mr. Morton said that he shared Mr. Kalijarvi's fears since our position before Congress had been that famine relief would not be used for straight economic aid purposes.[2]

[Here follows discussion concerning Austria, the Soviet Union, and other matters unrelated to Bolivia.]

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[1] An unsigned copy of the referenced memorandum, dated Sept. 22, 1953, is contained in Secretary's Letters, lot 56 D 459.

[2] In a letter to Director of the Bureau of the Budget Dodge, dated Sept. 30, 1953, Secretary Dulles indicated that the Department of State approved the use of the Famine Relief Act to provide $5 million for the Bolivian aid program, and that this approval in no way signified the Department's endorsement of procedures proposed by FOA for administration of the act (Secretary's Letters, lot 56 D 459).

Editorial Note

For text of an exchange of letters between President Paz Estenssoro and President Eisenhower concerning United States economic assistance to Bolivia, dated October 1 and 14, 1953, see Department of State *Bulletin*, November 2, 1953, pages 584–586.

For text of a Department of State press release, dated October 6, 1953, concerning use of the Famine Relief Act to provide agricultural commodities to meet Bolivia's relief requirements, see Department of State *Bulletin*, October 19, 1953, pages 518–519.

For text of the agreement implementing United States assistance to Bolivia, signed at La Paz, November 6, 1953, and entered into force on the same date, see Department of State Treaties and Other International Acts Series (TIAS) No. 2883, or *United States Treaties and Other International Agreements* (UST), volume 4 (part 2), page 2297.

611.24/11-453

Memorandum of Conversation, by William P. Hudson of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] November 4, 1953.

Subject: United States-Bolivian Relations in General

Participants: Walter Guevara Arze, Foreign Minister of Bolivia[1]
Victor Andrade, Ambassador of Bolivia
ARA—Mr. Cabot
OSA—Mr. Hudson

In response to a reference by Mr. Cabot to the visit of the Eisenhower mission,[2] Señor Guevara remarked that the visit had produced an excellent and far-reaching effect in Bolivia. The enthusiastic reception which the people had given to Dr. Eisenhower had been entirely spontaneous. This enthusiasm, which had endured, had provided an important element of the base on which the Bolivian Government was now erecting its policy of open friendship with the United States.

The subject of the United States aid program for Bolivia then came up, and the Foreign Minister expressed the deep gratitude of his Government, saying that this assistance would help Bolivia cover the gap in her essential payments during the period for which the assistance was scheduled.[3] However, he pointed out, without further assistance of some sort in the following year Bolivia's position would be even more desperate than it had been when the present program was conceived. Bolivia's foreign exchange costs, to feed her people, to keep the mining industry in operation, and to prevent the collapse of the national economic structure, were all fixed costs, whereas the price of tin was still going down and Bolivia lost $715,000 for every drop of one cent per pound. The United States assistance program would keep Bolivia from drowning for the time being, but additional help was needed to get Bolivia across the river—by which the Foreign Minister meant that Bolivia needed assistance for economic diversification which would remedy her fatal dependence on the price of tin.

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[1] Foreign Minister Guevara Arze was in the United States from mid-November until mid-December 1953, as head of the Bolivian Delegation to the Eighth Session of the UN General Assembly.

[2] Reference is to Dr. Milton Eisenhower's visit to Bolivia, July 7–9, 1953, as part of a factfinding mission to the countries of South America undertaken at the request of President Eisenhower. Regarding Dr. Eisenhower's mission, see the editorial note, p. 196.

[3] In a briefing memorandum prepared for Mr. Cabot, dated Nov. 3, 1953, Deputy Director of the Office of South American Affairs Bennett stated that the U.S. program of assistance to Bolivia amounted to $31.3 million: $17.9 million in tin purchases for the stockpile, $9 million in Famine Relief and MSA grants, $2 million in emergency technical assistance; and a $2.4 million increase in the Export-Import Bank credit (No. 467) authorized Oct. 10, 1949, for the construction of the Cochabamba-Santa Cruz highway. (611.20/11-353)

Mr. Cabot replied that the Department faced domestic difficulties in justifying the kind of additional assistance which the Bolivians desired. He hoped that the Bolivian Government would do everything in its power to put us into a position from which at a later date we should be able to justify further assistance to Bolivia.

The Foreign Minister inquired whether Mr. Cabot had in mind any particular persons in the Bolivian Government. Mr. Cabot responded in the negative, and said that an example of the sort of action he had in mind was the settlement of the Patiño compensation issue. Sr. Guevara stated that a Supreme Resolution ratifying the retention agreements made in June and July with all the large companies was ready and would be issued immediately. Regarding the problem of evaluation of the expropriated properties, he said that his Government had invited the companies to initiate negotiations immediately and was awaiting the designation by the companies of representatives for this purpose.

Mr. Cabot said that another case he had in mind was that of Panagra, against which the Bolivian Government has made tax claims on a basis which Panagra considers inequitable. Señor Guevara said that neither Señor Elío, the La Paz representative of Panagra, nor Mr. Shea,[4] the President of Panagra, whom he had seen recently, had ever mentioned this subject to him, but that he would look into it.

Mr. Cabot then brought up the case of the Bolivia Tin Corporation, a corporation registered in Maine, whose Bolivian properties have been "intervened" by the Bolivian Government. The Foreign Minister expressed surprise at our interest in this case, saying that he had supposed that Bolivia Tin was a British investment, since the British Ambassador had been to see him about it. He pointed out that there was always a danger that non-American capital interests might, as he contended the Patiño interests had done, put up the facade of incorporation in the United States and the sale of a few shares to American citizens in order to be able to claim the protection of the American Government.

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[4] Andrew B. Shea.

Mr. Cabot recognized this danger and told Mr. Hudson that we must be sure of the extent of the American ownership of Bolivia Tin. Mr. Hudson said that an effort was already being made to determine this factor. We were not sure that there was any substantial American interest in the firm, and furthermore we were not presuming to pass judgment on the facts and the law in this case. However, we were concerned about the background of emotionalism and agitation of public opinion which marked the case, and we hoped that the Foreign Minister would take an interest in it to insure that the company should obtain fair treatment and that the case should not become a source of friction between our two Governments. We believed that this case and that of Panagra were potentially important as sources of misunderstanding of Bolivian policy by foreign capital. Bolivia had proclaimed that its nationalization of the Big Three was a special case and that far from intending to pursue a policy of nationalization it wished to attract foreign private capital. In order to obtain general acceptance of the sincerity of these pronouncements Bolivia would have to be especially careful to avoid misunderstanding abroad of its handling of cases like these two.

Mr. Cabot pointed out that the United States policy of assistance to Bolivia had already provoked considerable criticism in this country. We had to be mindful of this criticism, and we should be less capable of helping Bolivia in proportion as any actions of the Bolivian Government might give rise to an increase in such criticism.

Referring to a *Wall Street Journal* article of November 2 criticizing Bolivia and United States policy toward Bolivia, Señor Guevara said that the attitude of the *Journal* appeared to be based on bad information. He planned to go and talk with the editors of the *Journal* and also to write them a letter explaining that nationalization was not a policy of the Bolivian Government. He wondered what advice Mr. Cabot could give him regarding this proposed action. Mr. Cabot suggested that he talk with the editors first and decide afterward whether to write a letter.

The Foreign Minister then pursued further the topic of Bolivia's hospitality to foreign private capital. His Government, he said, had reversed the policy of the preceding governments with regard to petroleum investments and now had an open-door policy, as evidenced concretely by the favorable terms which it had accorded to Glen McCarthy.[5] The Government was also studying legislation which would provide for the participation of private capital in the operation of certain of the nationalized mines.

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[5] A U.S. citizen of Houston, Texas, to whom the Bolivian Government granted oil concession rights in southern Bolivia; documentation pertaining to the McCarthy concession is in file 811.05124.

Mr. Cabot said that he wished to make it clear that the United States Government was not seeking to force an entry for new private capital in Bolivia. The admission of new private capital was a matter for the Bolivian Government itself to decide on the basis of the interests of Bolivia. The only thing that we were insisting on was that American capital should be respected once it had entered Bolivia, because otherwise difficulties would arise in relations between our two Governments.

Señor Guevara then developed the idea that the only practicable fields of operation for private capital in Bolivia today were mining and petroleum exploitation. Bolivia would try to attract capital to these fields, but under present circumstances it could not be hoped that foreign private capital would participate in the agricultural development of the country. He wished to emphasize that Bolivia would have to rely on funds from public sources for agricultural development. Mr. Cabot expressed the view that when the Bolivian economy had been stabilized private capital might very well come to Bolivia for all sorts of purposes. For the moment, he agreed with the Foreign Minister that mining and petroleum exploitation were the only likely fields for private investment. It was still doubtful that much private capital could be attracted even to these fields, and a great deal would depend on the attitude and efforts of the Bolivian Government itself.

Ambassador Andrade brought up the subject of Bolivia's need for further assistance after the expiration of the present aid program. Mr. Cabot said that there were at present too many variables, or unknown factors, for him to be able to give an answer on this point. He listed these variables as follows:

1) The future of United States aid programs in general is in doubt.

2) United States loan policy has still not been fully defined. He expected that the Eisenhower report would bring this question to a head and that it would be sharply debated in coming months, but he thought that this debate would produce a decision. Since he could not anticipate the action of Congress, however, he was not in a position to promise anything.

3) We were still uncertain how solidly we could get Congressional and public opinion behind us in recommending further assistance to Bolivia.

4) Much would also depend on what the Bolivians did to help themselves.

After expressing the determination of Bolivia to take all possible measures of self-help, the Foreign Minister said that he appreciated our inability to give him immediate answers to his questions but that he did want to pose the problem as widely and completely as possible among officials of the United States Government who would be concerned with it. With the present aid program Bolivia could get along until June 1954. This aid would have been thrown away, however, if

Bolivia were left to sink after that date. To escape drowning Bolivia would need further emergency assistance (food) and would also need help toward increasing her domestic agricultural production. The $2 million of emergency technical assistance would serve for little more than an experimental program. He expected that self-help measures which his Government was taking would result by the end of 1955 in the covering of substantial parts of Bolivia's present deficit in sugar and petroleum products. However, these efforts and the emergency technical assistance already promised would not in themselves suffice to solve the problem, and Bolivia would need additional developmental aid. He realized that this need was not immediate, since Bolivia could probably not immediately make good use of a large developmental credit; but he did want to prepare the way for developmental loans and further grant assistance in the near future. For this purpose he wanted to give the full background of the Bolivian situation personally to appropriate officials in the Department of State, the Treasury Department, the Foreign Operations Administration, the Export-Import Bank, the International Bank, and the International Monetary Fund. He also wished to pay a visit to Dr. Milton Eisenhower. Mr. Cabot said that the Department would help set up meetings for him with the United States officials whom he wanted to see, and suggested that he make his own arrangements directly with the IBRD and the IMF.

Mr. Cabot expressed doubt whether the IBRD would be able to consider loans to Bolivia in view of the status of default of Bolivia's foreign indebtedness. The Foreign Minister replied that, while Bolivia was obviously not in a position immediately to initiate payments on the defaulted debt, he was prepared to discuss this subject with the IBRD and try to make some satisfactory arrangement.[6] Although Bolivia's present situation was very difficult, her long-term prospects were promising.

The Foreign Minister then inquired about Mr. Cabot's views on the present political situation in Bolivia, remarking that the Government was now under attack by the Communists and that these attacks had been of such severity as to provoke the Government into arresting the editor of the Communist newspaper *El Pueblo*.

Mr. Cabot asked that the Bolivian Government not misunderstand the position of this Government regarding the Communist problem in Bolivia. We should be very seriously concerned if the Bolivian Government should permit Communists to hold official positions or if there were any Communist influence on the actions of the Government. Further, we were disturbed about attacks in the United States on our policy toward Bolivia which were based on the allegation that the Government of Bolivia was pro-Communist. However, we had not completely suppressed the Communist party in the United States, and we were not asking that the Bolivian Government do so in Bolivia.

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[6] In a memorandum of conversation between Mr. Cabot and Foreign Minister Guevara Arze, drafted by Mr. Hudson, dated Nov. 23, 1953, the Foreign Minister was reported to have stated, *inter alia*, that he was authorized to talk with representatives of the Foreign Bondholders Protective Council regarding Bolivia's defaulted external debt. (824.00/11-2353)

Señor Guevara stated categorically that there were no Communists in any important positions in the Bolivian Government. Ambassador Andrade said that he had interpreted United States assistance to Bolivia as meaning that we were convinced that the Paz Estenssoro Government was non-Communist. Mr. Cabot assured him that we would not have assisted a government which we considered Communist.

Señor Guevara stated that there were a good many important people in Bolivia who were anti-American but were not Communists. In fact, he said, the Government itself had until recently been split between two groups, one of which maintained that the United States was interested only in conserving its imperalist hegemony in this hemisphere and was not concerned about the fate of the subject peoples, whereas the other group had maintained that it was the policy of the United States to help the Latin American peoples achieve their aspirations because the United States believed that such progress by its neighbors was in its own interest. The present program of aid to Bolivia had placed the latter group in a position of dominance.

Mr. Cabot commented that we had indeed consulted our own interests in reaching the decision to assist Bolivia, as he had explained frankly in his address on October 14.[7]

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[7] Delivered to the General Federation of Womens' Clubs at Washington; for text, see Department of State *Bulletin*, Oct. 26, 1953, pp. 554–559.

611.24/11–2753

Memorandum of Conversation, by the Ambassador in Bolivia (Sparks)[1]

SECRET [LA PAZ,] November 23, 1953.

I called on President Paz Saturday morning, November 21, at 11:00 by appointment.

The President told me that it had been decided to postpone indefinitely his visit to Chile. He explained confidentially that it would have been imperative in any joint statement released to the press during the course of the visit to have included a reference to Bolivia's aspiration for a port on the Pacific. The President made it clear that it was not Bolivia's intention at this time to raise this question with Chile since Bolivia had more than sufficient internal problems without reopening the port question. Nevertheless, Bolivia considered that a reference to the port problem could not have been omitted in a press statement during the visit since the opposition would have seized upon this and would have charged the Paz Government with having abandoned this legitimate Bolivian aspiration. The President added that, on the other hand, President Ibañez is being pressed with many local Chilean problems in view of which neither he nor the Chilean Government were inclined to have a statement on the port question included in any press release during the course of the visit. Therefore, it was mutually agreed that the contemplated visit be postponed until a more appropriate time.

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[1] Enclosed with a letter by Ambassador Sparks to Mr. Hudson, dated Nov. 27, 1953; not printed.

The President reminded me of a previous statement by him that he intended to take a more forthright action against Bolivian Communists after his return from his visit to Chile. He confided that the timing on this action was influenced by the fact that there is an articulate Communist group in Chile which, if the action had been taken prior to his arrival in Chile, would have plagued him throughout his visit. However, now that the visit had been postponed, he would begin to take measures immediately. He stated that there would be a meeting of the Political Committee of the MNR Party on Friday, November 27, which would outline the position of the Party with respect to Communism, following which these principles would be applied within the Party and throughout Bolivia. In this connection the President inquired if the Acting Under Secretary for Foreign Affairs had shown me the handbill issued prior to the syndical elections at Catavi, Llallagua and Siglo XX. It will be recalled that this handbill in its appeal to the miners contained the significant phrase "¡Afuera los Comunistas!" The President was obviously gratified that the miners had overwhelmingly elected anti-Communist syndical officers.

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I mentioned to the President that I had just discussed with the Acting Under Secretary for Foreign Affairs the position of the United States with respect to the United States nationals who had been dismissed from the United Nations, and the decision of the United Nations Administrative Tribunal that the action of the Secretary General[2] had been illegal.[3] I outlined briefly the problem and added that the Acting Under Secretary planned, after consultation with the President, to instruct the Bolivian delegation to the UN to support the United States position. The President told me that Bolivia would consistently support United States positions in matters of this nature and that he would direct the Acting Under Secretary to instruct the Bolivian delegation at the United Nations.

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[2] Trygve Lie.

[3] For documentation on this subject, see vol. III, pp. 312 ff.

I then brought up the tax problem of Panagra which has been carrying on conversations with the Director of Revenue over a period of months with respect to its tax obligations in Bolivia. I explained that previous Governments had implicitly decided that Panagra was exempt from taxation in Bolivia, but that the Director of Revenue had reviewed this question and had reached the conclusion that Panagra was liable to income tax and had issued a Bill of Assessment. In establishing the tax due the Director had taken as a basis Panagra's revenues in Bolivia and had deducted only expenditures in Bolivia. I observed that this appeared to be an inequitable basis for calculating the tax since no provision was made for depreciation of equipment, maintenance of equipment which was carried on in Lima and Miami, and innumerable other important operating expenditures made outside of Bolivia. I also pointed out that receipts included passenger fares and air express and freight charges to ultimate destinations of which Panagra received only a part since the balance had to be paid to other carriers I stressed that Panagra was not trying to avoid tax obligations in Bolivia and that, with a view to reaching a formula equitable to the interests of Bolivia and Panagra, it had suggested a system which had already been accepted by Chile, Peru, Ecuador and Panama. I explained that this involved an annual statement of the profits or losses of Panagra and their apportionment in accordance with the actual miles flown in Bolivia. I added that officials of the Department had examined the Panagra documents and were in agreement as to the apparent reasonableness of Panagra's position in the light of normal practices in other countries, and that it was the desire of the Department that a fair and equitable basis be established for determining the tax.

The President was not informed of the discussions that had been proceeding between Panagra and the Bolivian tax authorities. I informed him that Panagra planned to discuss the problem with the Minister of Finance on Monday, November 23 and to appeal the decision of the Director of Revenue, having already made the deposit of the portion of the assessed tax required by Bolivian law. The President appeared to be favorably impressed with the reasonableness of the position of Panagra and said that he would speak with the Minister of Finance and the Director of Revenue.[4]

The President told me that the Council of Ministers on Friday, November 20 had approved and signed a decree ratifying the retention agreements signed by the Corporación Minera de Bolivia and the Patiño, Hochschild and Aramayo groups. He furnished me a copy of the decree which will be transmitted to the Department under cover of a despatch.[5]

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[4] Panagra's tax difficulties with the Bolivian Government were not fully resolved in 1953 or 1954; documentation pertaining to the subject is contained in files 824.11 and 911.5224.

I then raised the question of critical comment appearing in the American press, referring in particular to the open letter of former President Hertzog[6] which had appeared in the *New York Times* on November 11. I also mentioned the previous comments in the *Herald Tribune*, the *Journal of Commerce*, the *Wall Street Journal* and the *American Metals Market*. I said that I had discussed this problem with Foreign Minister Guevara at the airport on November 13 when he was returning to the United States, and that he had stated that he planned to call upon the editors of the principal American newspapers and explain the Bolivian situation. I expressed the hope that he would carry out this intention since the open letter of former President Hertzog is also critical of the United States in that the United States is virtually accused of supporting a Communist-dominated Government in Bolivia. The President is most sensitive to this criticism. He said that this matter is very much in his mind and that steps are being taken to counteract its adverse effects.

I took advantage of the opportunity to inquire as to developments following the abortive attempt of November 9th.[7] The President said that the situation is entirely under control and that the Government will take legal action against those responsible, in conformity with Bolivian law. He volunteered that the leaders and adherents of the FSB were a desperate, determined group and that they might make further efforts to achieve their objective. However, the Bolivian police were continuing their vigilance and search for arms and that the latter to date had been very productive. At this point I mentioned that I was being approached by individuals and groups who alleged that conditions in the Panóptico, in particular, and the detention camps, in general, were inhuman and that brutal methods were being used to extract information from the political prisoners. I added that this, of course, is an internal matter of Bolivia, but I could not but exhibit a humanitarian interest in the welfare of these persons. I added that I was unaware of any physical changes that had taken place in the Panóptico over the years; nevertheless I did not believe that, if the conditions there or in the detention camps were as described, this could be in the long-term interest of Bolivia or conducive to the pacification of the Bolivian scene which I understood was the ultimate objective of the President and his Government. (The Embassy has received many allegations of brutality by the police in extracting information, but has received virtually no proof that this is a common practice except that physical conditions in the Panóptico are, and probably have always been, repulsive and degrading.) The President replied that these conditions were undoubtedly exaggerated although "the methods of police all over the world are rough". I gained the impression that the President does not condone such "rough measures" by the police, but that the information obtained by the police permitted the timely discovery of plots and of the location of clandestine arms and ammunition which effectively prevented greater bloodshed among the Bolivian people.

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[5] Reference is to despatch 321, dated Nov. 23, 1953 (824.2544/11–2353).

[6] Enrique Hertzog Garaizabal.

[7] Reference is to the attempted coup led by the *Falange Socialista Boliviana* (FSB) party in La Paz and Santa Cruz; pertinent documentation is in file 724.00 for 1953.

I mentioned that the Embassy had received from the Minister of Economy, Augusto Cuadros Sanchez, the Bolivian request for the distribution of the 9 million dollars of food grants and that no final determination had yet been made with respect to the balance of 1.3 million dollars. The President seemingly had not understood that this amount was designed to be utilized for acquisitions in United States currency which would permit greater implementation of the local currency counterpart in the plans for the diversification of the Bolivian economy. I explained that FOA and the Department had intended that this amount be set aside from the grants for that purpose, or that should this amount be used for further food commodities then the Bolivian Government would commit itself to set aside from its own foreign currency availabilities an equivalent amount for that purpose. I said that I had discussed briefly this matter with the Foreign Minister on November 13 and that he planned to discuss it during his visit to Washington. The President appreciated this suggestion of FOA and the Department. No decision has yet been reached except the possible employment of a part of this amount for the purchase of pumps for the irrigation project at Villa Montes. The President stated that the possibilities would be given intensive study and he would inform me later as to the decisions that might be reached.

INR-NIE files

National Intelligence Estimate[1]

SECRET
NIE–92–54

WASHINGTON, March 19, 1954.

PROBABLE DEVELOPMENTS IN BOLIVIA[2]

THE PROBLEM

To assess the current situation and probable developments in Bolivia, particularly the character and stability of the present regime.

CONCLUSIONS

1. Bolivia is one of the most economically retarded and politically unstable countries in Latin America. The present National Revolutionary Movement (MNR) regime is one of the few broadly based governments which Bolivia has had. It enjoys wide popular support, particularly from labor and middle class elements.

2. The only significance of Bolivia's extremely weak military and para-military forces lies in their ability to influence the domestic political situation. At present the MNR firmly controls all three components of Bolivia's forces—the Army (which includes the Air Force), the police, and the civilian militia. If any two of these groups combined against the government, however, they could almost certainly seize power.

3. While the general orientation of the MNR is left of center, dominant influence in the government is now exercised by the party's moderate wing. Although it has accepted some support from Bolivia's two small Communist groups, the MNR is making increased efforts to reduce Communist influence. Nevertheless, it has hesitated to launch a frontal assault on the Communists and they retain some influence, especially in the school system and among organized labor.

4. Although the MNR government was critical of the US when it first came to power, it has become increasingly pro-US in its outlook because of US support of the regime. However, should the government lose confidence in US support, it almost certainly would revert to an anti-US orientation.

5. The MNR's ambitious program to expand and diversify Bolivia's economy and lessen its dependence on tin exports is the most vigorous attack to date on Bolivia's basic economic problems, but it is unlikely to bring about substantial increases in output in less than two years.

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[1] A cover sheet and dissemination notice are not printed.

[2] A note on the cover sheet reads as follows: "The Intelligence Advisory Committee concurred in this estimate on 16 March 1954. The FBI abstained, the subject being outside of its jurisdiction. The following member organizations of the Intelligence Advisory Committee participated with the Central Intelligence Agency in the preparation of this estimate: The intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff."

Meanwhile, owing largely to a sharp decline in tin prices, Bolivia faces growing economic difficulties, although emergency US aid has averted economic collapse.

6. After mid-1954, when emergency US aid will be exhausted, the government's stability and political orientation will depend greatly upon its ability to obtain additional outside support. If it can secure such aid, the MNR will probably continue its present moderate course without any serious threat to its continuance in power.

7. In the absence of external aid, the government would soon face an economic crisis and its stability would become increasingly tenuous. The MNR's labor wing would probably demand and receive an increasingly important role in the government. It might gain a controlling voice in the government, possibly with Communist support. Such a leftist regime would almost certainly be turbulent and short lived.

8. Moreover, to the extent that the present regime moved leftward it would lose much of its moderate support. In these circumstances the chief opposition party, the rightist, ultranationalist Bolivian Socialist Falange (FSB), would probably, over a period of time, amass sufficient backing to bring off a successful coup. Thus sooner or later the present government would almost certainly be overthrown.

9. An FSB regime would not be capable of stabilizing the economic situation without itself receiving substantial external aid. Even with such assistance, the FSB would have difficulty obtaining broad popular support.

10. In any case, the basic weaknesses of the Bolivian political, economic, and social structure are such that no Bolivian government will be able to prevent recurrent unrest and economic crises, and some degree of political instability will persist for some years to come.

11. Further political and economic deterioration would almost certainly increase Communist strength. However, the Communists alone could not gain and maintain control of Bolivia in the foreseeable future.

DISCUSSION

12. Bolivia is one of the most economically retarded and politically unstable countries in Latin America. Formidable geographical obstacles and lack of transportation facilities have hampered national growth. The small population of some 3,500,000 is clustered mostly on the high Andean tableland, while the more fertile but less accessible lowlands to the east are largely undeveloped. Most of the population exists on a subsistence economy. The only developed industry is mining, particularly of tin, which provides the great bulk of government revenues and foreign exchange. Normally slightly over half of Bolivia's tin goes to the UK, and the remainder to the US. The fact that Bolivia is the sole significant Western Hemisphere source of tin gives it considerable strategic importance to the US, although Bolivia normally provides only 10–15 percent of US peacetime requirements.

13. Bolivia's remoteness and poverty in developed resources have greatly retarded its social and political progress. The great bulk of the people are illiterate Indians and *mestizos* (persons of mixed ethnic origin) who have had no effective voice in national affairs. A small minority of literate whites and *mestizos* have constituted the effective body politic. The country has been dominated by a still smaller group of large landholders, senior army officers, and representatives of the mining interests. These groups were unable to maintain political stability and showed little effective interest in economic development or social improvement. Bolivia's humiliating defeat in the Chaco War (1932–1935) emphasized the ineptitude of the country's traditional leadership and stimulated the demands of middle class and labor elements for social, economic, and political reform. The continuing inertia of the traditional ruling group in the face of these demands resulted in a progressive decline of its prestige.

14. The National Revolutionary Movement (MNR) was organized by middle class elements in 1941 to press for economic and social reforms. The MNR participated in the Villarroel[3] Administration (1943–1946), but the military elements dominant in that regime prevented the MNR from shaping major policies. Nevertheless, during this period the MNR was able to broaden its political base through its appeal to labor elements, especially to the miners. With the fall of Villarroel the MNR went into eclipse, but the failure of succeeding governments to effect appreciable reforms resulted in a revival of its popularity. In the 1951 presidential balloting the MNR candidate, Victor Paz Estenssoro, received a substantial plurality of the vote of the narrowly restricted electorate, but the incumbent government forestalled his election by Congress by turning over its power to a military junta. In April 1952, however, this junta was overthrown by a revolution organized by the MNR with the support of the police and of armed workers, and Paz Estenssoro was called from exile in Buenos Aires to assume the presidency.

15. The policies of the MNR government, especially its nationalization of the tin mines and agrarian reform, have aroused much interest throughout Latin America. The other Latin American countries are closely watching the US attitude toward the new regime.

Political Situation

16. The MNR, led by President Victor Paz Estenssoro, has formulated the first broad program of economic development and social reform. It has undermined the power of the old ruling groups by purging the Army and creating its own militia, by nationalizing the tin

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[3] Gualberto Villarroel.

mines, and by instituting agrarian reform. It has broadened the electorate to include the unassimilated Indians and *mestizos* by decreeing universal suffrage with no literacy requirement, and is making efforts to organize rural labor. Although these measures have incurred the embittered opposition of many in the previous ruling group, they have been generally popular and the net effect has been to strengthen the MNR's political backing.

17. While the MNR regime is authoritarian, it enjoys broad popular support. It has strong backing from urban and farm labor and a probable majority of the middle class professionals, white collar elements, and owners of small and medium-sized farms. The MNR has the support of the powerful mine workers federation of approximately 45,000 members led by Juan Lechin, the leftist Minister of Mines who is the second strongest figure in the present regime. The MNR also controls the other two major labor federations: the factory workers (about 25,000), and transport and communications unions (about 15,000). Moreover, the MNR dominates the Bolivian Labor Central (COB), a council created by the MNR to represent labor at the national level and to strengthen government-labor liaison.

18. However, the MNR is not a homogeneous party, and its coherence is largely dependent on the personal relations among a few key men. Although Paz Estenssoro is the recognized leader and key figure, his party is split roughly into a presently dominant moderate wing, composed largely of middle class elements led by Vice President Siles Suazo and a more radical labor wing led by Lechin. Paz is inclined toward the moderate wing. Thus far his unifying influence, and the feeling of each wing that it needs the other have led both wings to accept compromise solutions on most issues. For example, the labor wing pushed the MNR into immediate nationalization of the tin mines and expropriation of large landholdings, but the moderates prevailed in securing approval of compensation for these properties (although the amount has not yet been agreed upon). The moderates have also successfully resisted labor pressures for sharp wage increases and for greater participation in management of the mines. Should Paz be removed from the scene, Lechin would probably succeed him, although not without some opposition.

19. *Leftist Influence in the MNR*. Although dominant influence is now exercised by its moderate elements, the general orientation of the MNR is left of center. The leftist cast of the MNR reflects not only the nature of some of its leadership and backing, but also the fact that it rose to power as a revolutionary protest movement against previous conservative regimes. Allegations have been made that the MNR is pro-Communist because it has received varying degrees of Communist

support and because many of the objectives of the MNR (nationalization, agrarian reform, etc.) have also been favored by the Communists.

20. In fact, Bolivia's small and divided, but vociferous, Communist groups have been a source of both support for and opposition to the MNR. They represent another manifestation of the same reaction that fostered the MNR, and have drawn their membership from some of the same social groups as has the MNR. They gained a foothold in Bolivia by capitalizing on the growth of resentment against previous regimes and on the Latin American tendency to blame "capitalism" and "Yankee imperialism" for most national ills. Two small parties are currently active, the Stalinist Bolivian Communist Party (PCB) and a Trotskyite group, the Revolutionary Workers Party (POR). The PCB has roughly 2,000 members, drawn mostly from middle class intellectual elements, particularly in the school system. The POR, with roughly 1,000 members, is strongest among organized labor. The two parties present a common anti-US front on foreign policy, but have adopted different tactics on domestic issues. The PCB has followed a policy of conditional support for the MNR; it advocates a "united national front" and is apparently willing to compromise, at least temporarily, its long term objectives. The POR, on the other hand, has been considerably more extreme and has increasingly opposed MNR policies.

21. The advent of the MNR regime has benefited the Communists in Bolivia and they enjoy a considerable degree of government toleration of their activities. However, the MNR's attitude toward the Communists has undergone a considerable evolution since the 1952 revolution. Initially the MNR accepted Communist support in its struggle for power as a matter of expediency. Once in power, however, the MNR has tended to recognize the fundamental rivalry between itself and the Communists, and has gradually adopted a more anti-Communist attitude. It has also recognized that close association with the Communists would diminish its chances of getting US aid. The Communists in turn have become increasingly critical of the MNR.

22. The MNR has made increasing efforts to reduce Communist influence in the government and among labor and agrarian elements. For example, it has removed a number of Communists and suspected Communists from important government and trade union posts, although the Communists retain some influence in the unions and in the school system. While Lechin, among others, cooperated with the Communists before the revolution, thus facilitating the spread of Communist doctrine in the labor movement, he and the POR are now rivals for control of labor. However, the MNR has hesitated to launch a frontal as-

sault on the Communists because of: (a) the conditional support it has so far received from the PCB; (b) its need to draw upon PCB-influenced groups for technical and administrative personnel; and (c) its far greater concern over the threat from the right and its desire to avoid exposing both flanks simultaneously.

23. *The Opposition from the Right.* The rightist Bolivian Socialist Falange (FSB) constitutes the chief opposition to the MNR. The FSB, a small but militant ultranationalist group drawn mostly from conservative elements among the middle class, has become the focal point for those opposed to the MNR, such as high ranking army officers removed by the MNR, the expropriated tin interests, and some large landowners. Some members of the Church hierarchy also are in sympathy with the FSB, although the general Church attitude apparently is one of toleration toward the present government. The FSB denounces the MNR as Communist dominated and seeks to overthrow it in favor of an authoritarian conservative regime. However, the FSB has so far been unable to gain much popular support, and its present capabilities for a coup are limited. Close MNR surveillance and security measures have reduced it largely to clandestine activity. Many FSB and other opposition leaders have been forced into exile. The FSB is also weak in the key La Paz area, control of which has usually been essential to a successful coup.

24. *Military and Para-Military Forces.* The only significance of Bolivia's extremely weak military and para-military forces lies in their ability to influence the domestic political situation. At present the MNR firmly controls all three components of Bolivia's forces—the Army (which includes the Air Force), the police and the civilian militia. No one of these groups could seize power if both others opposed it, but any two of them combined could almost certainly seize power.

25. The Army, the bulwark of previous governments, was shattered by the 1952 revolution, but the MNR has rebuilt it to some extent. It now numbers approximately 10,000 and consists largely of short-term conscripts who receive little more than basic training. Its usable equipment consists largely of light infantry weapons. The Army Air Force has 454 men, 42 of them pilots, and 51 aircraft, mostly trainers. Its sole tactical unit consists of seven C–47's. The MNR has purged the Army and the Air Force and keeps them under close surveillance. Most active officers are probably sympathetic toward the basic objectives of the regime. The regiments in the vital La Paz area and in the mining center of Oruro are the most dependable because of higher pay and careful screening. However, many officers are disturbed by the leftist and alleged pro-Communist tendencies within the MNR; some of the younger ones are susceptible to the influence of various exiled officers who support the FSB.

26. There are also 4,300 National Police, mostly long-service personnel, armed with light weapons. Except for the Army regiments in La Paz and Oruro, the police are probably the most efficient force in Bolivia, but are too few by themselves to cope with either the Army or the militia. They supported the MNR in the 1952 revolution and are now loyal to the regime.

27. The civilian militia, numbering 20,000–30,000, is composed in part of MNR party units directly responsible to President Paz and in part of worker units controlled by the MNR labor leaders. The MNR organized the militia from the armed workers and other groups which supported the 1952 revolution in order to bring them under control and to provide a counterweight to the Army. Although the militia is very poorly organized and trained, amounting in some cases to little more than an armed mob, large numbers of them are fanatically loyal to the regime. They are particularly strong in La Paz and the mining areas.

Economic Situation

28. Bolivia's economic growth is hampered by formidable obstacles to communication; low levels of literacy, health, and living conditions; lack of investment capital; and Indian resistance to change. At least two-thirds of the population is engaged in agriculture and most farming is on a subsistence level. The small amount of commercial agriculture has been increasingly inadequate to meet the needs of the nonagricultural population. Thus Bolivia has to import a large part of its food. Industrial development, aside from mining, is limited to a few simple processing and fabricating industries; it is retarded by the smallness of the local market, high transportation costs, and the inadequacy of domestic raw materials and fuels. Thus such demand as exists for manufactured goods must also be satisfied mostly from abroad.

29. Under these conditions Bolivia's economy is largely dependent upon mineral exports, mostly tin, antimony, and tungsten. Tin exports have normally supplied about 70 percent of Bolivia's foreign exchange and 90 percent of government revenues. However, Bolivia is an increasingly marginal tin producer and highly vulnerable to fluctuations in the world tin market. Since World War II, the declining tin content of Bolivia's ore and higher extraction costs have weakened Bolivia's competitive position, thus reducing its ability to meet essential import needs. These economic difficulties have been aggravated by chronic governmental inefficiency and maladministration, persistent inflation, and political and social unrest.

30. The MNR has launched an ambitious long-range program to expand and diversify the economy, largely by increasing production of foodstuffs and consumers goods. It hopes thereby to lessen Bolivia's need for extensive imports and consequent dependence on fluctuating

exports of tin. The government is stressing development of agricultural, forest, and petroleum resources in the lowlands and the Amazon basin. It is attempting to develop commercial agriculture in place of subsistence farming, to expand rail and highway facilities, and to encourage foreign investment. The MNR is utilizing US and UN technical assistance and has given a concession to private US interests to develop oil deposits in southeast Bolivia.

31. However, the MNR has met serious difficulties in its economic stabilization and development efforts. Its hope that the revenues and assets gained from the nationalized tin mines would stabilize its fiscal position and ease foreign exchange shortages was nullified by the precipitous decline in tin prices which began in April 1953. Moreover, the government also felt compelled to disburse a large part of the liquid assets secured from mine nationalization in bonuses and unemployment compensation. These factors, together with continued governmental inefficiency and poor fiscal management, have intensified one of the most severe inflations in Latin America. The government's attempts to stem the tide by a series of wage, price, and currency stabilization measures have proved largely ineffective.

32. Nevertheless by such means as borrowing on its foreign gold holdings, drawing on its quota in the International Monetary Fund, liquidating exchange reserves, and above all securing emergency US aid, the MNR has at least temporarily staved off economic collapse. A US grant of $9 million, mostly foodstuffs, in October 1953 has helped assure adequate imports until about June 1954, and a $2 million increase in US technical assistance is facilitating a food production program.

Probable Domestic Developments

33. Bolivia's future political stability will depend greatly on the extent to which its government can prevent further economic deterioration and meet development needs. Although the MNR has launched a vigorous attack on Bolivia's basic economic problems, its ability to fulfill its ambitious program is limited not only by lack of capital but by the shortage of skilled administrative and technical personnel, the feeling of insecurity in business circles, and some continued opportunism and corruption in the government. None of the agricultural projects now underway will appreciably increase food production in the next year or two. Although the MNR apparently intends to restrict expropriation to relatively few landowners, uncertainty on this point and occasional agitation over agrarian reform may lead to further declines in food production in areas affected. Moreover, tin prices appear unlikely to rise significantly in the near future. Therefore, we estimate that the MNR is unlikely to be able to bring about substantial increases in agricultural and industrial output in less than two years.

Moreover, completion of the MNR program will require at least five years.

34. Meanwhile, the MNR's ability to retain broad popular support will depend greatly on whether it can meet the immediate problems of inflation and food shortages. Largely as a result of existing US aid further serious economic deterioration is unlikely before mid-1954, and the MNR will probably face no serious political challenge. After mid-1954, however, renewed economic distress is likely unless Bolivia can obtain additional external support. If such aid were secured, the MNR would probably continue its present relatively moderate course; it would probably continue to move slowly on agrarian reform and would attempt to make some compensation payments to the tin interests.

35. On the other hand, without economic aid, the MNR Government would soon exhaust its slender resources and be unable to forestall a further inflationary spiral. Agitation from the right and left, including the MNR labor wing, would almost certainly increase. We believe that in such a case the MNR would feel compelled to move increasingly toward the left to maintain its crucial labor support. The MNR's labor wing would probably demand and receive an increasingly important role in the government. It might gain a controlling voice in the government, possibly with Communist support. However, such a leftist regime would almost certainly be turbulent and short-lived.

36. Moreover, to the extent that the present regime moved leftward it would lose much of its moderate support. In these circumstances the FSB would probably over a period of time amass sufficient backing, including disaffected army and police elements, to bring off a successful coup. Thus, without additional aid, the present government would almost certainly be overthrown sooner or later.

37. An FSB regime would not be capable of stabilizing the economic situation without itself receiving substantial external aid. Even with such assistance, the FSB would have difficulty obtaining broad popular support. In particular, it would face formidable opposition from the MNR.

38. In any case the basic weaknesses of the Bolivian political, economic, and social structure are such that we believe that no Bolivian government, even with substantial external aid, will be able to prevent recurrent economic crises and social unrest from persisting for some years to come. Thus at best the long term outlook is for some degree of political instability.

39. *Communist Prospects*. So long as the MNR's moderate leadership feels relatively secure in power, it will probably continue its efforts to contain and weaken the Communists. To the extent that the MNR program is successful, the government's ability to curb the Communists

would be increased. By the same token, renewed economic deterioration and consequent political unrest would almost certainly lead to an increase in Communist influence. If, in this event, the MNR moved more to the left, it would be more willing to accept Communist support. If the MNR's labor wing went so far as to split off, it would probably cooperate closely with the Communists. Finally, a successful FSB coup would probably lead the MNR as a whole to cooperate at least temporarily with the Communists in attempts to regain power. In any event, the Communists alone could not gain and maintain control of Bolivia in the foreseeable future.

Foreign Relations

40. Bolivia's internal weaknesses, its past military defeats and losses of territory, and its lack of access to the sea have tended to create a national inferiority complex and sense of insecurity. Its long-range aspiration to re-acquire a Pacific port has occasionally caused strained relations with Chile and Peru. Fearful of the intentions of neighboring countries, successive Bolivian regimes, including the MNR, have sought to play foreign interests off against each other, as in the case of Argentina and Brazil. Although preserving cordial relations with Argentina, an important source of foodstuffs, the MNR government is resisting Argentine penetration, and seeking to decrease its dependence on Argentina by developing trade and communications with Brazil.

41. The MNR's program has aroused much sympathetic interest in Latin America, and only Peru has had a strongly unfavorable reaction. Peru fears that the example of the MNR program may lead to similar demands in Peru and that the MNR might encourage the Odria Government's opponents. Conversely, the MNR fears that its rightist opponents, many of whom have taken refuge in Peru, may secure Peruvian assistance for a coup.

42. Bolivia's policy toward the US is primarily determined by its desire for US economic support. Nevertheless, with the growth of popular demands for change which culminated in the MNR coup, there has been a tendency to blame alleged US "imperialism" for backing the tin interests and for not helping Bolivia sufficiently, especially in times of economic stress. This latent anti-US sentiment has been widely exploited by political leaders, including the Communists, to blame the US for Bolivia's woes. When the MNR first came to power, domestic political exigencies and its uncertainty as to US intentions made it quite critical of the US. As a result of subsequent US aid and the tolerant US attitude toward the regime, however, the MNR has become increasingly pro-US in its outlook and has taken the position that Bolivia's interests will be best served by cooperating with the US. However, should the government come to feel that the US was not supporting it, active anti-US feelings would almost certainly increase

again. Bolivia has generally supported the US in the UN on important issues between the US and the Soviet Bloc, although like most Latin American states it has been less willing to follow the US lead on economic, colonial, and racial questions. In event of general war, Bolivia would almost certainly cooperate with the US.

43. At present, Bolivia has very limited relations with the Soviet Bloc. There are no Bloc diplomatic missions in La Paz, although the Czech and Hungarian legations in Buenos Aires are accredited to Bolivia. Bolivia's trade with the Bloc is also insignificant. However, continuing economic difficulties would stimulate greater Bolivian interest in closer diplomatic and trade relations with the Bloc, and thereby render Bolivian opinion vulnerable to Communist propaganda. In these circumstances, the USSR, by applying economic warfare measures to Bolivia, could secure important psychological advantages there and elsewhere in Latin America.[4]

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[4] A map showing the location of strategic mineral resources is appended to this estimate, but it is not printed.

724.58/2254

Memorandum by the Secretary of the Army (Stevens) to the Department of State[1]

CONFIDENTIAL WASHINGTON, April 22, 1954.

Subject: Extension of Army Mission Agreement with Bolivia

1. Reference is made to your memorandum of 21 December 1953,[2] subject as above, requesting the Department of the Army's views concerning the extension of the Army Mission Agreement with Bolivia.

2. The Department of the Army is currently maintaining a mission in Bolivia of seven officers and five noncommissioned officers at an annual cost to the United States of approximately $95,000. Since 1947, the Bolivian Government has failed to meet its obligation under the terms of the agreement providing for this mission. This failure on the part of Bolivia is a matter of increasing concern to the Department of the Army, particularly in view of the current emphasis on maximum economy in the utilization of manpower and funds.

3. Bolivia has failed to reimburse the Department of the Army for transportation furnished at the behest of that government as stipulated in Article 15 of the agreement. At the close of the fiscal year 1953, the Bolivian Government owed the Department of the Army approximately $85,000 for transportation incident to the outward movement

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[1] Addressed for the attention of George O. Spencer of the Bureau of Inter-American Affairs.

[2] Not printed (724.58/12–2153).

of mission members. At present, the Bolivian Government is unable to meet its obligations with the Grace Line to defray the expenses incident to the return of mission personnel to the United States. The Grace Line will not return mission members to the United States unless guaranteed payment in advance, and since Bolivia cannot make such payment, the Department of the Army has been compelled since June 1953 to pay these additional expenses.

4. The mission is encountering protracted delays with respect to Article 15 of the Agreement whereby Bolivia is obligated to defray the medical expenses of the mission members. The Bolivian Ministry of Defense is slowly reimbursing the mission members for these bills but many have been outstanding for over two years.

5. The Army Mission in Bolivia is making negligible progress in obtaining any tangible results with respect to our government's military program of ultimate standardization of Bolivian military organization, training, doctrine and equipment along U.S. lines. The major obstacles to the attainment of military objectives are lack of funds for the Bolivian Army and political deterrents to military progress. The economic situation in Bolivia and the influences of the leftist elements who look with disdain upon any attempt to build an efficient professional army is resulting in a paucity of appropriations for the Bolivian Army. The lack of funds precludes attendance of Bolivian military students at U.S. Army service schools in the United States or Panama and the purchase of U.S. military equipment. Army officers who are suspected of political thoughts or activities against the present regime are either reassigned to frontier regions or expelled from the Army. Understandably, no Army official in Bolivia dares to become too energetic in building up an efficient army for fear of incurring the consequences of the wrath of the leftist elements in the government.

6. Since the revolution in April 1952, the Bolivian Government has emphasized expansion of the service elements of their army, particularly engineering, transportation and signal, and has endeavored to utilize its army for the economic development of the country. To further such development, increasing assistance has been required from the U.S. Army mission in offering technical advice and instruction in the fields of engineering and communications.

7. At a meeting on 21 September 1952 with the Commanding General, U.S. Army, Caribbean, the President of Bolivia, Victor Paz Estenssoro, explained that his plans for the future of the Bolivian Army were directed toward expansion in technical fields and use in developing the economic resources of the country. He expressed his desire for the continuation of the U.S. Army mission, organized along lines to provide maximum technical assistance for his economic program.

8. The Department of the Army will agree to initiating negotiations with the Bolivian Government with a view to extending the mission

agreement in its present form either for a period of four years or indefinitely, provided a settlement of Bolivia's outstanding obligations is effected during these negotiations and appropriate arrangements are made to insure prompt settlement of future obligations. In the event such settlement cannot be achieved, the Department of the Army will reconsider the feasibility of maintaining this mission.

For the Secretary of the Army:
James M. Gavin
Major General, GS
Assistant Chief of Staff, G–3

824.2544/6–2454

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Smith)[1]

OFFICIAL USE ONLY [Washington,] June 24, 1954.

Subject: Tin Purchase from Bolivia

Pursuant to the recent decision to continue the operation of the Texas City smelter, the RFC is now negotiating with Bolivia a purchase contract for tin concentrates.[2] After reviewing its production costs, RFC has offered to Bolivia the same terms as the September 23, 1953 contract, with the exception that an additional deduction will be made ammounting to approximately $350,000 on the total contract of about $20 million. The Bolivians object on the grounds that this action is not justified and will be resented in Bolivia.[3]

The present contract negotiations are in the nature of a commercial operation and therefore the RFC feels justified in insisting upon the additional deduction. The RFC feels that it cannot agree to other terms in the absence of specific authorization to do so. Costs of operating the smelter have increased, but the processing of Bolivian ores is only a part of the operation. RFC acknowledges that its production costs are necessarily estimates; assessing the increase among various phases of the operation is largely a matter of bookkeeping.

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[1] Drafted by John L. Topping of the Office of South American Affairs and cleared with Mr. Atwood, but not signed by Mr. Holland.

[2] A memorandum by Mr. McKinnon to the Administrator of the RFC (Cravens), dated June 17, 1954, summarizes to its date the course of the negotiations between representatives of the Bolivian Government and the RFC, which took place at Washington during late May and June 1954 (824.2544/6–1754).

[3] A memorandum by Milton Barall of the Office of South American Affairs to Mr. Atwood, dated June 17, 1954, reads in part as follows: "In a conversation I had with Ambassador Andrade on June 15, he became quite emotional about the tin contract now under negotiation with the RFC. He said from his point of view the contract had become successively worse and that at the present time some 'functionary' in the RFC was trying to save the US Government a little money at the expense of Bolivia which was in dire need. He said a saving of $300,000 on smelter charges on a total contract of $20 million would be of little importance to the Government of the United States, whereas it would jeopardize the political value of the contract in Bolivia." (824.2544/6–1754)

The United States has extended $14.5 million in assistance to Bolivia during the current fiscal year. The Administration plans to extend substantial further aid during the new fiscal year in line with US objectives there. In view of the aid being given to Bolivia, the sum involved will become available to that country in one form or another. Moreover, it is my considered opinion that the adverse psychological effects in Bolivia of a contract on the proposed RFC terms would negate the favorable effect we expect from the purchase itself. In view of the present situation in Latin America, I feel that we should avoid adverse reactions in Bolivia.

Recommendation

I strongly urge that you seek Cabinet authorization for the Reconstruction Finance Corporation to conclude a contract with Bolivia for the purchase of 12,000 tons of tin on terms identical with those of the contract of September 23, 1953, covering the last purchase from Bolivia.[4]

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[4] The Department's telegram 177, to La Paz, dated June 28, 1954, reads as follows: "RFC agreed today purchase 12 thousand tons Bolivian tin on terms Sept. 1953 contract with no new deductions. Seek early opportunity convey this decision orally to FonMin and President Paz adding problem considered at top level where decision reached to meet Bol request despite sound justification of original RFC offer." (824.2544/6–2854)

724.58/4–2254

The Secretary of State to the Secretary of the Army (Stevens)[1]

CONFIDENTIAL [WASHINGTON,] July 22, 1954.

DEAR MR. SECRETARY: I refer to a memorandum of April 22, 1954[2] from Major General James M. Gavin to Mr. George O. Spencer, and to subsequent discussions between officers of the Departments of State and the Army regarding the extension of the Army Mission Agreement with Bolivia.

The Department of State has brought to the attention of the Bolivian Government its outstanding obligations to the United States for transportation expenses for Army Mission members and has urged that some action be taken by that government to settle this obligation. This Department is prepared to follow this matter up in negotiations for extension of the Mission Agreement with a view to arriving at some arrangement for the settlement of this account.

This Department does not, however, believe that the payment of this account should be a prerequisite to extension of the Agreement. The inability of Bolivia to keep this account current is apparently due to its unsatisfactory economic condition which reached very serious proportions when the price of tin dropped drastically last year and resulted in total grants by the United States to bolster the Bolivian economy of $14 millions. The Congress has been requested to appropriate an additional $9 millions for fiscal year 1955. The deficit in Bolivia's foreign exchange budget during 1953 was around $12 millions and the estimated deficit for 1954 is over $21 millions. In the light of this situation, I do not believe that it would be desirable or productive of results to press strongly for payment of this account. I would suggest instead that consideration be given to modifying the existing Agreement to reduce the dollar cost of this Mission to Bolivia and thus avoid further additions to Bolivia's outstanding account. I understand, for example, that the Department of the Army has the authority to assume the cost of transportation of members of the Army Mission and their families and the shipment of their household goods and effects to and from Bolivia and does pay such costs under the terms of similar agreements with Costa Rica[3] and Paraguay.[4]

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[1] Drafted by Robert M. Sayre of the Office of Regional American Affairs; cleared with the Office of South American Affairs.

[2] *Ante*, p. 557.

General Gavin's memorandum also notes that because of the political situation in Bolivia it has not been possible for the Mission to perform as effectively as it should. It appears now that the Bolivian Government is endeavoring to re-establish a professional army. Recent events also show that the Bolivian Government has placed itself squarely on the side of the United States and against communism. There has, therefore, been a material improvement in the last six months over the situation described in paragraph five of General Gavin's memorandum.

In addition to the fact that it is our general policy to maintain military missions in Latin America, it is in our interest that we help Bolivia rebuild its military establishment so that it can help in maintaining internal security. It is particularly important at this time to insure that the Bolivian Government will be able to back up the strong stand it is taking against communism and to thwart the efforts that the communists are making in Bolivia to create unrest and to cause the overthrow of the present government.

I would appreciate being informed whether the Department of the Army would be agreeable to entering into negotiations with the Bolivian Government for extension of the Army Mission Agreement on the understanding that efforts would be made to arrange a settlement of Bolivia's outstanding obligation but that payment of this obligation would not be a prerequisite to extension of the Agreement.[5]

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[3] Reference is to the agreement providing for the services of a U.S. military mission in Costa Rica, signed at Washington, Dec. 10, 1945, and entered into force on the same date, as subsequently extended and amended; for text, see Department of State Executive Agreement Series (EAS) No. 486, or 57 Stat. 1184.

[4] Reference is to the agreement providing for the services of a U.S. military mission to Paraguay, signed at Washington, Dec. 10, 1943, and entered into force on the same date, as subsequently extended and amended; for text, see EAS No. 354, or 57 Stat. 1184.

Sincerely yours,

For the Secretary of State:
HENRY F. HOLLAND
Assistant Secretary

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[5] A letter by Assistant Secretary of the Army George H. Roderick to Assistant Secretary Holland, dated Aug. 12, 1954, reads in part as follows: "The Department of the Army is agreeable to entering into negotiations with the Bolivian Government for a new Army Mission Agreement along the lines set forth in your letter. However, it is recommended that continued efforts be made to effect liquidation of Bolivia's outstanding obligation." (724.58/8–1254)

For text of the exchange of notes, signed at La Paz, Aug. 9 and Sept. 9, 1955, and entered into force on the latter date (operative retroactively to Aug. 11, 1950), extending and amending the agreement of Aug. 11, 1942, as extended and amended, see *United States Treaties and Other International Agreements* (UST), vol. 6 (pt. 3), p. 3907.

824.2547/8–2654

The Assistant Secretary of State for Economic Affairs (Waugh) to the Administrator of the General Services Administration (Mansure)[1]

CONFIDENTIAL [WASHINGTON,] September 22, 1954.

DEAR MR. ADMINISTRATOR: Reference is made to my letter of August 27, 1954[2] on the subject of United States Government contracts for Bolivian tungsten, and to the letter of August 26, 1954[3] from Mr. A. J. Walsh to Mr. Harlan Bramble of this Department, transmitting a draft letter which the General Services Administration proposes to send to Bolivian tungsten producers.

In addition to the correspondence noted above, conversations have taken place between officers of the General Services Administration and of the Department on this subject. As a result of these conversations and its own analysis of the contracts in question, the Department now believes that the weight of the arguments regarding interpretation of the contract specifications is in favor of the Emergency Procurement Service position that the contracts calling for tungsten trioxide in the form of wolframite do not obligate this Government to pay for tungsten trioxide that may be contained in the ore in forms other than wolframite. The Department considers that the Bolivian contention that tungsten trioxide in the form of scheelite meets the specifications of contracts calling for wolframite is an incorrect interpretation of the contract terms. The Department is also of the opinion, however, that the presence of scheelite in the ores in question is not in itself a violation of the contract specifications. The only contractual requirements in this connection are that the ore contain a minimum of 65 percent tungsten trioxide as wolframite and that certain specified impurities, among which scheelite is not included, not exceed the stated maximums.

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[1] Codrafted by Mr. Bramble and Mr. Topping.

[2] Not printed (824.2547/8–2754).

[3] Not printed (824.2547/8–2654).

A number of shipments against contracts calling for wolframite have failed to contain the minimum of 65 percent tungsten trioxide in the form of wolframite. In particular, the deliveries under the Hochschild contract have been below that standard. It is possible that the supplier cannot remedy this situation in the near future. The Department realizes that the suppliers have the right to take back ore not meeting the specifications, beneficiate it, and resubmit it within ninety days. There is a practical difficulty with this alternative, however, since the one firm in a position to perform this beneficiation is booked far in advance, in substantial part on material for the United States Government. It is possible that treatment of some lots could be arranged elsewhere but the practicability of this course has not been demonstrated. Under a strict application of the terms of the contract, therefore, it seems certain that if the Bolivian Government attempted to beneficiate ores not meeting contract specifications it would fail to meet delivery schedules, thus permitting the United States Government to cancel the contract.

The Department believes that the national interest requires that the contracts with Bolivian suppliers continue in force. The present Government of Bolivia has been increasingly friendly and cooperative toward the United States. If it should disappear or be substantially altered, the resultant administration might well be less favorably disposed toward the aims and objectives of the United States, and of the western world in general. Also, it is probable that a period of economic collapse and political chaos would accompany a change in administration. Such developments in Bolivia would be most undesirable from the standpoint of United States security.

In order to avoid economic collapse and actual starvation in Bolivia, the United States has since November, 1953 been engaged in a program of economic grant assistance to that country. Under this program, a total of $23.4 million has already been expended or allocated for expenditure in that country. The need for such assistance arose primarily from the almost complete dependence of the Bolivian economy on revenues from its minerals exports in order to pay for essential imports of foodstuffs. Lower prices in the world market for Bolivian minerals exports, of which tungsten ranks second only to tin, have caused that country to be unable to pay for its needed food imports. The loss of income from tungsten exports would cause Bolivia to be even more unable to pay its own way and additionally dependent on United States economic aid.

In addition, it has been hoped that the aid extended to Bolivia would strengthen the desire of its officials and people to live in harmony with other countries of the Hemisphere, including the United States. That objective has been partially achieved. However, that success would be completely lost if the United States now cancelled the contracts for tungsten. The action would be interpreted in Bolivia as displaying a disregard and lack of sympathy for the serious problems faced by that country, and as an example of the one-sided trading practices of which Bolivia, and other countries in Latin America, frequently accuse the United States. The Bolivians are aware that the United States is continuing to pay its own tungsten producers even higher prices than those contained in the Bolivian contracts, and would greatly resent the fact that they, as a principal foreign supplier, were singled out for economies practiced by the United States. Bolivia has been a particularly vocal exponent of the argument that the United States should enter into arrangements to guarantee stable markets for the raw materials it obtains abroad, and would use our cancellation of the tungsten contracts as a further proof of their argument that the United States looks abroad for help in time of crisis, but when that moment is past, shows no inclination to extend reciprocal treatment.

The Department also considers that the maintenance and development of tungsten production in Bolivia depends on contracts such as those now existing. The deposits were never extensively exploited on a basis of private purchases. While it may be possible that Bolivian production is not essential to the United States at the present time, developments in high temperature alloys, and in political conditions elsewhere in the world, could make it imperative that the United States have extensive supplies of tungsten available in the Western Hemisphere in addition to its own mines. Should the contracts now be cancelled, it appears that the Bolivian mines would be shut down. Redeveloping them would be expensive and time-consuming, and the Bolivian producers and the Bolivian Government would be hesitant to commit themselves to such redevelopment in the future. Moreover, the Bolivian disappointment if the tungsten contracts were cancelled would probably lead to a lack of cooperation in this and other fields as well.

In this connection, it should be noted that other countries which are producers of raw materials needed by the United States will be aware of whatever treatment is extended to Bolivia in this case, and their cooperation in the future will be accordingly influenced.

The draft letter which the General Services Administration proposes to send to the contractors would in effect result in cancellation of at least the Mauricio Hochschild contract and perhaps others. It is unlikely that enough material meeting the strict specifications of the contracts can be delivered in time to meet the delivery schedules. The Department, therefore, requests that the letter in this form not be sent.

The Department of State suggests that a satisfactory solution might be arrived at along the following lines:

1. That the contracts be continued.
2. That the existing price basis in the contracts be maintained.
3. That from that price basis there be deducted the cost of bringing the wolframite content of the ore up to specification plus other charges necessary to make the ore acceptable under the contracts.

It would be possible to attain the effect of this proposal by extending the delivery date until the Bolivian suppliers could have the ore treated. In view of the desperate need of the Bolivian Government for foreign currency, however, it would be preferable for the United States to accept and hold the material until it could be beneficiated. The United States should not accept ore that could not be brought up to specification.

It is recognized that the proper treatment charges may be difficult to calculate. In particular, the disposition of the scheelite contained in the ore may raise questions. Under the contract the United States is not obligated to pay for the scheelite, yet it has value and the United States could elect to use the unbeneficiated ore as a mixed wolframite–scheelite concentrate rather than upgrading it to a wolframite type. The Department prefers not to suggest specific provisions to govern this aspect of the transaction, but it believes the suppliers should receive a payment comparable to what they themselves would have realized if they had arranged for the beneficiation and delivered specification material. It is also recognized that the terms should be arranged so as to encourage the Bolivians to deliver the best grade of material they can produce. The Department is confident that these problems can be solved.

The Department of State is firmly of the opinion that every effort should be made to reach a satisfactory solution to this problem along the lines indicated. Acceptance of the proposal on the part of the Bolivian Government would require a substantial retreat from the position which that Government now takes, and would result in less income from the contracts than they have expected. At the same time, the proposal would protect the financial interests of the United States to the fullest extent practicable, while permitting continuation of the contracts, which the Department considers to be essential.[4]

Sincerely yours,

SAMUEL C. WAUGH

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[4] No reply by the GSA to this letter was found in Department of State files.

Holland files, lot 52 D 295

Memorandum of Conversation With Bolivian President Paz Estenssoro and Members of His Cabinet, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

La Paz, September 30, 1954.

The President brought up the following problems:

1. Bolivia's exchange deficit. He asked for $9 million of trade to go to capital goods, machinery, and equipment and $7 million of agricultural surpluses including wheat, cotton, lard and milk. He presented a memorandum[2] showing how the $9 million would be spent, but prepared on the assumption they would receive only $7 million.

2. Export-Import Bank loans to cover paving the Cochabamba Highway, the construction of the Puncu highway, a construction of a bridge over the river Piraí (?).[3]

3. He discussed Bolivia's desire to build an oil line from Cochabamba to Santa Cruz, with extensions from that point to La Paz and Arica.

4. His desire to build a tin smelter in Bolivia to reduce freight rates and to eliminate the cost of importing sacking.

When the conference broke up, I told him privately that I thought he should be able to get private financing for the oil line and the tin smelter.

5. Bolivia's desire for a three-year tin contract to enable it to do long-term planning.

6. Bolivia's desire to extend the Wolfram contract.

7. Bolivia's negotiations with respect to the amount of final payment for the appropriated mines.

8. Bolivia's attitude toward private enterprise. The Government wants to retain control of the tin smelter, if built, and its traditional monopoly on the manufacture of matches. However, it will welcome private capital in any other enterprise, including the oil and gas industries.

9. Bolivia's default of foreign debt. The Government proposes to submit an offer to the bondholders calling for terms or a scale tied to the price of tin.

At the end of the conference, I drew the President aside and told him:

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[1] This memorandum is unsigned.

Mr. Holland visited Bolivia, Sept. 26–30, 1954, as part of a tour of the countries of South America undertaken Sept. 5–Oct. 10, 1954, for the purpose of explaining to the leaders of those countries positions adopted by the United States in preparation for the forthcoming Rio Economic Conference. For documentation on the conference, see pp. 313 ff.

[2] Not found in Department of State files.

[3] Question mark in the source text.

1. Made the statement regarding the financing of the oil line and tin smelter which was stated above.

2. Asked him if he felt that his Government could adopt fiscal revisions suggested by either the IBRD or the Exim Bank and designed to increase Bolivia's borrowing capacity. He assured me that he would try to follow any suggestions.

3. I asked him if he felt confident of his ability to control the Communist problem in Bolivia. He said that he did.

824.00 TA/11–2354

The Deputy Under Secretary of State (Murphy) to the Director of the Foreign Operations Administration (Stassen)[1]

CONFIDENTIAL

[WASHINGTON,] November 23, 1954.

DEAR HAROLD: As you know, the President personally considered and concurred in the decision to extend grant aid to Bolivia in September, 1953. At that time, it was recognized that additional grant aid would be necessary during the present fiscal year. In his confidential report to the President in January, 1954,[2] Dr. Milton Eisenhower expressed the opinion that a minimum of $15 million would be necessary. I understand that this was in harmony with the conclusions and recommendations of your Administration, as well as those of the Department. On the basis of recommendations from our Embassy in Bolivia and of studies in the Department, it is now felt that $16 million will be required, consisting of approximately $10 million in the form of agricultural commodities and $6 million of developmental equipment. The local currency arising from the sale in Bolivia of the agricultural commodities would be used in that country's program for expanded agricultural production and economic diversification. I am told that this conclusion is concurred in by the United States Operations Mission in Bolivia and by your Administration. Officers of the Department have informed me that it appears possible to make the necessary funds available under the provisions of existing legislation, particularly the Mutual Security Act of 1954[3] and the Agricultural Trade Development and Assistance Act of 1954.[4]

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[1] Drafted by Mr. Topping; cleared with Mr. Holland.

[2] Reference is to Dr. Eisenhower's report, submitted to President Eisenhower under date of Jan. 11, 1954, containing an analysis of specific economic problems of the South American countries he had visited at the request of the President in the summer of 1953. For additional information concerning Dr. Eisenhower's mission, his initial report to the President, dated Nov. 18, 1953, and his supplementary report of Jan. 11, see the editorial note, p. 196.

[3] Public Law 665, approved Aug. 26, 1954; for text, see 68 Stat. 832.

[4] Public Law 480, approved July 10, 1954; for text, see 68 Stat. 454.

I therefore urge that you do whatever is necessary in order to assure that $16 million in grant aid will be available for Bolivia promptly.[5] I am sure you agree that such action follows logically from our original decision concerning aid to that country, and reflects the Cabinet's decision of March 5, 1954 when approving in principle, as indicative of the Administration's determination to implement Dr. Milton Eisenhower's report, a memorandum[6] which included the statement to the Secretary by the President that "I am struck by the fact that in a number of cases, a very small loan or investment on our part might reap very definite and extensive advantages for us".[7]

Sincerely yours,

ROBERT MURPHY

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[5] In a memorandum to Secretary Dulles, dated Nov. 18, 1954, recommending that he sign the letter to Mr. Stassen and a similar one to Clarence Francis, Chairman of the Inter-Agency Committee on Agricultural Surplus Disposal, Mr. Holland stated in part that decisions concerning implementation of PL 665 and PL 480 "being taken by top officials of the Foreign Operations Administration and the Francis Committee, appear to be preventing the use of that legislation for grant aid to Bolivia, and unless corrected would make the availability of the necessary funds doubtful." (824.00 TA/11–1854)

[6] The referenced memorandum by President Eisenhower, dated Jan. 12, 1954, transmitting a copy of Dr. Eisenhower's supplementary report to Secretary Dulles, is in file 120.220/1–1254.

[7] For the actual text of the statement quoted from President Eisenhower's memorandum, see footnote 3, p. 217.

Under Secretary Murphy's letter to Mr. Francis, also dated Nov. 23, 1954, reads in part as follows:

"In your capacity as Chairman of the Advisory Committee on Agricultural Surplus Disposal, I hope that you will find it possible to provide $7 million at market value of agricultural commodities on a grant basis for aid to Bolivia during the present fiscal year, and should it appear to Mr. Stassen that it is desirable to utilize the Agricultural Trade Development and Assistance Act for that purpose." (824.00 TA/11–2354)

Editorial Note

By an exchange of notes, signed at La Paz, December 3 and 22, 1954, and entered into force on the latter date (operative retroactively to September 4, 1953), the United States and Bolivia agreed to extend and to amend the agreement of September 4, 1941, as extended, providing for the services of a United States military aviation mission in Bolivia; for text of the notes, see TIAS No. 3192, or 6 UST 575.

For text of the agreement of September 4, 1941, see 55 Stat. 1338.

824.2544/12–1554: Airgram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL WASHINGTON, December 15, 1954.

Subject: Compensation for Nationalized Properties of Patiño Mines and Enterprises Consolidated, Inc.

A–167. The Department's policy with respect to the international obligation of a government to make compensation for property nationalized by it.

is set forth in the *Aide-Mémoire* handed to the Guatemalan Ambassador[1] on August 28, 1953,[2] a copy of which is enclosed. It is the Department's position that compensation meeting the criteria set forth therein should be made to the United States citizen owners of Patiño Mines & Enterprises Consolidated, Inc., which concern was deprived of its properties in Bolivia by the Nationalization Decree of October 3, 1951 [*October 31, 1952?*]. The Department would prefer that mutually satisfactory arrangements be reached by direct negotiation between the Bolivian Government and representatives of the firm. However, it does not appear that the direct negotiations now taking place will result in an early Agreement.

As the Embassy is aware, the "Definitive Agreement on Retentions" signed between representatives of the "Patiño Group" and the Bolivian Mining Corporation at La Paz on June 10, 1953,[3] is scheduled to expire after December 31, 1954. Sums have been paid to the "Patiño Group", including Patiño Mines & Enterprises Consolidated, Inc. under the provisions of that Agreement. In view of the American interest in Patiño Mines & Enterprises Consolidated, Inc., the Department is concerned over the failure to date to reach an agreement on the modification and extension of the "Agreement on Retentions". The Department considers such action is the minimum that should be expected from the present negotiations. Failure to reach such an agreement might well cause reactions in United States public opinion unfavorable to the present Government of Bolivia, and would cause the Department to consider most carefully and critically the question of the sincerity of the repeated declarations by high ranking officials of the Bolivian Government that they intended to make adequate compensation to the former owners of the nationalized properties.

Provided the Embassy considers that the action would be useful in achieving the desired objectives, it may make the above observations known on a confidential and informal basis to high officials of the Bolivian Government. The Embassy should report promptly any action taken.[4]

DULLES

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[1] Guillermo Toriello Garrido.

[2] Not printed here. For text of the referenced *aide-mémoire*, dated Aug. 27, 1953, see Department of State *Bulletin*, Sept. 14, 1953, pp. 357–360.

[3] The referenced agreement was reached on June 10, 1953, but actually signed on June 13.

[4] In despatch 285, from La Paz, dated Dec. 28, 1954, Ambassador Sparks informed the Department of State that on Dec. 22, 1954, COMIBOL had offered a 90-day extension of the retention agreement currently in force with Patiño Mines and Enterprises Consolidated, Inc. (824.2544/12–2854)

BRAZIL

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND BRAZIL[1]

Editorial Note

On January 3, 1952, the Brazilian Government issued decree no. 30363 establishing new regulations governing the return of foreign capital invested in Brazil and profit remittances on such capital. Under the provisions of the decree, a firm's profit remittances were limited to 8 percent annually on capital actually brought into Brazil (registered capital). Remitted profits in excess of 8 percent were to be regarded as "capital", and the remittance of capital was limited to 20 percent annually of the registered amount. A translation of the decree was transmitted to the Department of State under cover of despatch 1098, from Rio de Janeiro, dated January 5, 1952 (800.05132/1–552).

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[1] Continued from *Foreign Relations*, 1951, vol. II, pp. 1184 ff.

Editorial Note

On January 3, 1952, representatives of the United States and Brazil initiated negotiations at Rio de Janeiro for a bilateral military assistance agreement. Pertinent documents are in Department of State file 732.5 MSP. The agreement was signed on March 15, 1952, and entered into force on May 19, 1953; for text, see Department of State Treaties and Other International Acts Series (TIAS), No. 2776, or *United States Treaties and Other International Agreements* (UST), volume 4, page 170.

Concurrent with the negotiations for the military assistance agreement, Major General Charles L. Mullins, Jr. (USA) negotiated a related bilateral military plan with representatives of the Brazilian Government. In telegram 829, a joint Department of State–Department of Defense message, dated March 14, 1952, Secretary Acheson informed Ambassador Johnson that Secretary of Defense Lovett had approved the military plan negotiated by General Mullins (732.5 MSP/3–1452). On March 15, General Mullins and Brazilian General of the Army Pedro Aurélio Góes Monteiro signed the Military Plan Between Brazil and the United States for Their Common Defense, in a private ceremony following the signing of the military assistance agreement (732.5 MSP/3–1952). No copy of the Plan was found in Department of State files.

832.131/1–552: Telegram

The Ambassador in Brazil (Johnson) to the Department of State

SECRET PRIORITY RIO DE JANEIRO, January 5, 1952—9 a. m.

840. For Asst Secy Miller. Embtel 836, January 5.[1] We are greatly disturbed in Emb at implications decree limiting remittances of profits on fon capital. It understatement to say it will discourage entry of private fon capital.

After conf this morning with Emb officers and experts Amer Section Joint Econ Comm,[2] I called on FonMin Fontoura[3] to discuss matter. I told him I had not yet had time make thorough study decree and I had as yet no instrs from my govt to make any comment. I said, however, that on basis my very real concern for successful progress Joint Comm in which both countries interested and for protection Amer interests already established here, I felt compelled express my apprehension that this decree together with certain statements in President's speech[4] re fon capital a day or two ago wld be interpreted in Wash as extreme trend toward nationalism and wld be a definite discouragement to all those endeavoring encourage flow of private capital to Braz for its econ development. I called his attention particularly to the provision that profit remittances in the past in excess of 8 percent of capital brought in from abroad will be considered as remittances of capital. In some cases this will mean all orig capital brought in from abroad has been repatriated and firms in question will therefore not be permitted make future profit remittances. . . . FonMin attempted defend doctrine that earnings plowed back into fon enterprise cld not be considered as fon investment on ground that this compounding feature wld drain away so much exchange Braz balance of payments cld not stand it.

It obvious FonMin had not been consulted by President Vargas in regard this decree and that he himself is seriously disturbed by it. He made several comments not relevant to technical features of decree but in attempted explanation of why it was issued. Although stating emphatically President is not opposed to entry fon capital and is not pursuing blindly nationalistic policy, his admin is nevertheless in so weak a position politically that he is faced with two alternatives, one is to take over by *coup d'etat* and rule by decree, the other is to remain loyal to 1946 constitution and govern according to that constitution. He had chosen latter way. In order be able govern at all under that dispensation, without even a simple majority his party in Congress, he is compelled gauge carefully opinion of all elements of opposition, to conciliate sections of that opinion and to secure their support. He has, therefore, been compelled take certain measures (and FonMin implied present decree is one of them) which will strengthen his support amongst the masses and give them feeling he is really doing something in their interest. FonMin remarked he wld make a comment to me which he as member of Vargas cabinet had no right to make. He asked if it had ever occurred to me Vargas might not be able to finish his term. This was said to emphasize his point that President is compelled make polit compensations in order hold things together and to combat ceaseless undermining of Commies which has reached proportions that have authorities here gravely concerned.

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[1] Not printed.

[2] Reference is to the Joint Brazil–United States Economic Development Commission (JBUSEDC), which initiated its activities on July 19, 1951.

[3] João Neves da Fontoura, Brazilian Minister for Foreign Affairs.

[4] The referenced speech, delivered by President Vargas on Jan. 1, 1952, is reported in telegram 824, from Rio de Janeiro, dated Jan. 2, 1952 (832.131/1–252).

Argument that Braz will not have exchange possibilities to allow fon capital to be repatriated with earnings on any basis except that of orig investment may sound plausible from nationalist point of view but it seems to us here will have disastrous effect on entry fon capital so vital to Braz econ development. Question retroactive effect injuring vested interests which have operated under old decree and in good faith appears technically to be different matter and one on which we wld have every sound legal grounds for protest.

It wld be helpful have this decree carefully studied by Dept's legal experts and for Emb to be given benefit any views which may result and of any instrs which Dept may care give. It wld be helpful if my informal representations of today might receive Dept's support and with such direct instrs for further comment as may seem justified after full study question. Dept may care consult reps Eximbank and IBRD since this present decree, regardless FonMin's statements, seems certain to appear as total discouragement of fon private investment and may seriously undermine concept on which Joint Comm has been erected.[5]

JOHNSON

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[5] Department of State telegram 614, to Rio de Janeiro, drafted by Assistant Secretary Miller, dated Jan. 7, 1952, reads in part as follows: "Very much appreciate urtel 836 Jan 5 and completely concur ur analysis and especially with ur views concept on which Joint Comm has been created may be seriously undermined. Business circles here naturally bombarding Dept with questions and we are certain to come under heavy pressure engage in reprisals through holding up loans, etc." (832.131/1–552)

In a memorandum to Assistant Chief for Exchange Restrictions and Payments Agreements Mortimer D. Goldstein, dated Jan. 8, 1952, Deputy Assistant Legal Adviser for Economic Affairs Stanley D. Metzger stated that the Brazilian decree governing remittances did not violate international commitments of Brazil to the United States with respect to either the General Agreement on Tariffs and Trade (GATT) or the Articles of Agreement of the International Monetary Fund, and that such alleged violations should not be used as the basis for any representations to Brazil regarding the decree (832.131/1–852).

832.00 TA/3–1152: Telegram

The Ambassador in Brazil (Johnson) to the Department of State

SECRET PRIORITY RIO DE JANEIRO, March 11, 1952—8 p. m.

1112. For Asst Secy Miller. Embtels 1109, Mar 10,[1] and 1101, Mar 7,[2] urlet Mar 4.[3] I met yesterday afternoon with FonMin and contd discussion reported Embtel 1109. It evident FonMin deeply concerned about possible effect of banks withholding action on Joint Comm projects until satis Braz action on exchange decree. His views which appeared to me slightly over-emphasized but perhaps not intentionally so are substantially as fols:

There are two groups in Braz whose activities and intentions are hostile to US-Braz collaboration. One of these groups is Commie whose motives are known and require no particular discussion relation present situation. Other group composed people who profess profound skepticism at practical possibility of any benefit to result to Braz through coop with US. This group at present moment is focusing its attacks on Lafer[4] who is staunch proponent Braz-US collaboration. Any indication that banks are withholding action on Joint Comm projects as means of pressure on Braz Govt wld be according to FonMin immed pointed to by Lafer's enemies as proof that US lacks sincerity and that loans so confidently promised by Lafer wld never materialize. As much as FonMin wld like have banks issue favorable statement re these projects, he wld not want them to issue any statement if it were coupled with reservation re Braz on exchange decree. He professed belief it wld have damaging effect on position Lafer in particular and on those elements in govt who are struggling for effective coop with US. FonMin further stated that if Lafer shld lose out in his present fight, he wld unquestionably be replaced by some one not favorable to close coop with US, that it wld mean a serious setback for all proponents of that collaboration. He considers it particularly unfortunate that this crisis has arisen just at moment when US and Braz are approaching agreement on various important matters long under study. He mentioned specifically this connection mil agreement and pending discussions on sales of monazite and still unconcluded manganese and uranium questions. All these matters are progressing favorably he said, the two latter being under active study. While he did not specifically say so, he indicated that a polit crisis which wld result in Lafer's departure might jeopardize or seriously retard our agreement on other matters.

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[1] Not printed (832.00 TA/3–1054).

[2] Not printed.

[3] A copy of the referenced letter is contained in Miller files, lot 53 D 26, "Brazil." In the letter, Mr. Miller stated that some businessmen believed there was a "great deal of merit to our policy which might be described as 'not rocking the boat' ", but that many others feel it is "wishy-washy and amounts to appeasement." He further stated that if the situation was not soon clarified, business groups in the United States would begin to exert increasing pressure on the International Bank for Reconstruction and Development (IBRD) and the Export-Import Bank not to make any loans to Brazil.

[4] Horacio Láfer, Brazilian Minister of Finance.

Attacks on Lafer and Joint Comm have not been caused by US reactions to decree but according to FonMin are motivated by desire to get rid of Lafer who is sound and conservative FinMin intent on curbing public expenditures and imposing regime of austerity on govt depts. This is maddening to other group which also has ear of Pres and whose real desire according to FonMin is to destroy Lafer so they can "get their hands into the public treasury". This group therefore seizes on any angle from which to attack MinFin. Recent disaster with many fatalities of central railway has given new ammunition to attack MinFin and Joint Comm for failure expedite necessary financing of railway improvements.

Pressures from various quarters for a "get-tough policy" described urlet Mar 4 are known to both Fon and Fin Mins. I have personally been at particular pains to point out to them on repeated occasions our practical difficulties, and our disagreement with them on subj fon exchange decree. I referred to this point again in my talk with FonMin yesterday urging that he and MinFin facilitate our task of trying to help Braz by speeding up as much as possible action on fon exchange decree which MinFin's comite now trying work out in practical terms. I urged him not to let us get caught in a vicious circle of conflicting polit difficulties. I told him that I understood and sympathized with difficult position which MinFin was passing at present and asked him to realize that my own govt likewise had difficulties in maintaining its position without public evidence of corresponding understanding and action from Braz side. I very much appreciate stand Dept has taken and hope it will continue to press view on banks that processing of these agreed projects shld go forward in normal manner. While I am not able to share in full degree FonMin's pessimism re possible results Lafer's losing out, I nevertheless think that his departure from FinMin on this issue wld be grave setback to our interests in Braz. I believe I realize difficulty of dealing with dissident business groups in US. I hope, however, that banks can continue to be urged to resist undue pressure from this quarter and proceed firmly on basis confidence in good faith Braz and her Fon and Fin Mins. In my opinion we have nothing to lose by supporting our friends in this govt. If fortified by our confidence and support they win, as I believe they can, we shld be in better case than before. If they lose out and we shld be forced to reconsider our position and measures for safeguarding Amer interests, we wld be no worse off than if we take a "get-tough attitude" now for I do not believe Vargas from a polit point of view cld voluntarily yield to US pressure. If eventually forced to do so through overriding econ facts and circumstances, we wld have aroused a deep and abiding hostility which wld play into hands of those elements who for whatever reason desire to diminish Amer influence and interests here.

Lafer is more calm and restrained than Neves in expressing his views and seems more confident his position with the Pres than above-reported remarks of FonMin wld indicate. However, when I saw him at the office on Mar 6 after a bad day and vicious public attacks, there was no doubt in my mind that he cared very much for what position the banks might take on the agreed project and made a dignified plea for our understanding and support.

JOHNSON

800.05132/5–852

The Ambassador in Brazil (Johnson) to the Department of State

SECRET PRIORITY RIO DE JANEIRO, May 8, 1952—1 p. m.

1370. For Asst Secy Miller. I can understand argument with which Dept apparently is faced, namely that US shld refuse take action on all loan applications until remittance decree satisfactorily modified (Deptel 998 May 7[1]). Such a stand at least by implication is threat that we are willing to let Lafer plan die if Brazil does not take action we consider necessary. Those favoring such tactics must not realize President appears adamant against giving into pressure, and using approaching expiration date of Lafer plan is considered pressure by him.

If we are patient and can convince President our sincere intent assist econ development Brazil, I am certain we shall work out solution remittance decree problem which we can accept. If we allow Lafer plan succumb adjustment remittance decree in my opinion will become impossible for long period to come. Consequences will be extremely serious to all phases our relationship with Brazil: mil, raw materials, polit in UN and agencies and OAS with its organs. I wish repeat our relations with Brazil now at crossroads.

With specific reference to remittance decree problem, in our opinion making $10 million central loan does not materially weaken our bargaining position since Lafer and others know additional loans will not be forthcoming till acceptable solution remittance problem found. In other words we wld be making $10 million loan the withholding of which in our opinion might lessen possibility finding solution while making it wld at least postpone and perhaps prevent crisis of first magnitude in all phases our relationship with Brazil.

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[1] In the referenced telegram, to Rio de Janeiro, drafted by Mr. Miller, dated May 7, 1952, Ambassador Johnson was informed that the Department could not promise President Vargas that Brazil's request for a loan to the Central do Brasil railroad would be made irrespective of a solution to the remittance decree problem, in view of the fact that the IBRD had to take into account strong sentiments in U.S. financial quarters, and also that it would be impossible, as suggested by the Embassy, to transfer the loan application to the Export-Import Bank (800.05132/5–652).

I am certain it realized in Wash that Lafer plan provides internal financing to extent $500 millions. Plan was undertaken partly because our insistence early days of joint comm that Brazil itself must solve its cruzeiro financing problem. It seems to us that as internatl institution IBRD can not take upon itself responsibility for causing this internal financing plan to become inoperative.

Bohan and I are seeing President tomorrow (Friday) at 3:30.

JOHNSON

800.05132/5–952: Telegram

The Ambassador in Brazil (Johnson) to the Department of State

SECRET PRIORITY RIO DE JANEIRO, May 9, 1952—8 p. m.

1391. For Assistant Secretary Miller. Bohan and I saw Pres Vargas this afternoon. Pres had been previously informed that we wished to discuss certain aspects of remittance decree and both Bohan and I felt that he gave us an exceedingly friendly and attentive reception. I told Pres that we hoped he might be interested to hear directly from Mr. Bohan, who had come recently from Wash, something of the effect produced by the decree in Amer circles that are friendly to Braz and keenly interested in its development.

When we had finished, Pres, who gave every indication of an understanding of position we outlined, began his own remarks with statement that he hoped we wld realize tremendous pressure now on him through growing force of nationalism, which he frankly said had been linked in many minds with Commie, but nevertheless, was a major factor in his own political calculations. He spoke of resentful feeling existing in Braz because of large sums of money allocated through Marshall Plan to Eur, and other areas of the world in comparison to what had been done for Braz. He also expressed his disappointment and dissatisfaction with slow progress made by Joint Comm, and said that speaking frankly, he wld also tell us that he had been informed that several members of the Amer sec of the Comm had close ties with Wall Street. Bohan and I defended the Amer sec of Comm vigorously. We told Pres he had been seriously misinformed regarding Wall Street connections of members of the Comm, which was contrary to fact. Pres seemed receptive to our explanations and statements and likewise to our expression hope that he wld be patient for we felt that the Comm was on eve of really constructive accomplishments.

Pres was very frank and moderate in all his statements. From things he said it was apparent, however, to Bohan and me that he has been subjected to considerable anti-Amer propaganda much of it vicious, and that it has been so persistent he is beginning to wonder if some of it is not true. In spite of Pres's moderation of statement, I have concluded that opinions given me by FonMin Fontoura regarding certain influences on Pres have not been exaggerated, and that he and FinMin Lafer are objects of attack by these same groups. Pres gave us feeling of his sincere friendliness to US, but also feeling that he is genuinely disappointed at neglect with which he considers Braz has been treated by US. This feeling of disappointment has undoubtedly been fed by extremely nationalistic and anti-Amer propaganda to which he has been subjected and is consequently greatly exaggerated, but has become something of an obsession. I believe he is open-minded with a friendly disposition and not only ready but desirous to be convinced that our professions are sincerely meant. Most telling action that we can produce in clearing Pres Vargas's mind of any remaining doubts will be prompt and effective action on loan projects recommended by Joint Comm.

Trend of Pres comments was consistent but in more moderate vein with account of his remarks to FinMin Lafer on May 7 reported in memo of conversation of May 8[1] between Lafer, Moreira Salles[2] and Bohan. Copies of this memo were forwarded by courier pouch today in an envelope addressed to Kidder and shld be in your hands on Mond.

Bohan is returning to Wash tonight by air will arrive some time May 11. He has an excellent and accurate understanding of situation here and will fill you in on details of talk with Pres today, as well as numerous conversations he has had with Min Lafer and latter's advisers.

JOHNSON

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[1] Not printed.
[2] Walther Moreira Salles.

Miller files, lot 53 D 26, "Brazil"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Brazil (Johnson)

SECRET [WASHINGTON,] May 15, 1952.

DEAR HERSCHEL: I have three matters on which I wish to comment in this letter as follows:

First, I have received a letter from Burke Knapp[1] telling me that he wishes to be relieved of his assignment in Rio no later than the end of August. Merwin Bohan has told me that Knapp is adamant and I believe we have no alternative except to honor his desires in this matter. The problem immediately arises as to who should be his successor. My very strong conviction is that there is one and only one person for the job and that is Merwin Bohan. However, Merwin seems to be reluctant to do it although I believe he would if he were pressed to. Would you let me know what you think of this suggestion and also let me have any ideas that you may have about alternatives. I think Merwin is ideal, first, because it will be hard to get a top-notch man to take over from Knapp; second, because Merwin already knows the job; and, third, because, in so far as concerns competence and ability to get along with the Brazilians, I know of no one who could do this as well as Merwin. Please let me have your thoughts on this as soon as possible.[2]

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[1] J. Burke Knapp had been serving as the Chairman, U.S. Section, JBUSEDC since Sept. 28, 1951.

Second, I have your letter of May 1[3] concerning the Secretary's visit to Brazil. It seems to me that we were extremely wise to postpone this visit until after the remittance problem got settled. It now seems to me that it would be preferable to postpone it until the latter part of June by which time I am hopeful that not only will the remittance problem have been settled on the basis of the proposed free market bill,[4] but also because by then I should think we might have gotten the two banks to have made some sizeable loans, all of which would provide a happier atmosphere. If you should agree with this timing, it would be possible to relate the visit to the trip which the Secretary has to take to England around June 24 to receive an honorary degree from Oxford University and to preside over a meeting of U.S. Ambassadors in the European area.[5]

[Here follows additional discussion of the Secretary's prospective trip to Brazil.]

Third, with regard to the problem of remittances, the formula for creating a free market seems to be meeting with considerable approval up here and I hope that we can get word to you and Knapp very soon about it and that the banks will be able to move ahead very quickly on certain pending loan applications. It is too bad that this problem has created so many difficulties that really weren't necessary but I take it that it is part of diplomacy to be continually staving off disaster rather than to be working towards positive and constructive goals. Merwin and I will do everything we can to get over a hundred million dollars of loans made in the next six weeks by the two banks which should create a much better feeling about the U.S. in Brazil.

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[2] Ambassador Bohan became Chairman, U.S. Section, JBUSEDC on Aug. 19, 1952.

[3] Not printed (Miller files, lot 53 D 26, "Brazil").

[4] On Apr. 24, 1952, Brazilian Deputy Adolpho Gentil introduced into the Chamber of Deputies a bill establishing an official free exchange market for capital transactions. The bill, *inter alia*, authorized the executive to divide the foreign exchange market into official and free markets; the International Monetary Fund parity rate would prevail in the former, while rates in the latter would be determined by supply and demand. Capital and profit remittances would be regulated by the executive and effected through both the official and free markets. The Portuguese text of the bill was transmitted to the Department of State under cover of despatch 1784, from Rio de Janeiro, dated May 2, 1952 (832.131/5–252).

[5] Regarding Secretary Acheson's European trip in June 1952, see the editorial note, vol. v, Part 2, p. 1544.

I am looking forward very much to having Walther[6] up here.

Sincerely yours, EDWARD G. MILLER, JR.

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[6] Walther Moreira Salles.

832.00 TA/5-2252:Telegram

The Ambassador in Brazil (Johnson) to the Department of State

CONFIDENTIAL RIO DE JANEIRO, May 22, 1952—2 p.m.

1451. Totec.

1. Knapp, Bohan telephone conversations have caused us greatest anxiety. Firm loan assurances obtained up to now, seem to us fall tragically short of "package" required to restore some measure confidence in US-Braz econ collaboration thus enabling Lafer obtain positive backing Pres on free market and save Braz development program, including joint comm.

2. As we understand it, firm package so far developed includes Am Fon Power $41 million Paulista Railway $7 Central Railway $10 plus IBRD assurance $15 additional on railroads other than Santos Jundiai total $73. In our judgment this package must be improved by, at very least, addition of Santos Jundiai and Rio Grande power loan, plus new general statement from banks recognizing progress Braz has made since last Sept in domestic financial and institutional program, expressing confidence in work joint comm on basis projects completed thus far, and doing utmost, short of fixing actual figures on time sched, to carry conviction to skeptics here that, aside from initial package, banks really mean business in Braz.

3. Santos Jundiai project is technically inseparable from Paulista project and omission from package renders inclusion Paulista largely meaningless. This addition wld bring total to $82 million. Believe, however, further addition Rio Grande do Sul project indispensable for any prospect of success for fol multiple reasons:

(*a*) Only its inclusion, bringing total to 107, comes within shooting distance of Braz aspirations;

(*b*) Without it Braz Govt approval of Am Fon Power loan is most seriously jeopardized; without this loan, company wld be unable meet clamor for better service and its ability maintain operation as private enterprise wld be seriously threatened.

(*c*) Collapse Rio Grande loan negotiations because of insistence further legis changes wld be violently resented throughout Braz as evidencing attempt at unjustifiable intrusion in Braz domestic affairs; and

(*d*) Pres has keen personal interest in this program for his home state, which is ardently shared by FonMin also from Rio Grande whose influence with Pres in present crisis has probably been lifesaver. Nothing wld be better calculated antagonize them than further delays granting this loan.

4. In addition foregoing strongly urge Eximbank consideration $15 million credit for agricultural equipment subject to working out project details. This wld bring total to 122, or roughly half figure mentioned by Lafer. We are not prepared say inclusion this loan in package is indispensable, but on other hand it shld in no sense be considered substitute for Santos Jundiai or Rio Grande loan.

5. We have been shocked by Bohan's latest advice that IBRD assurance of $15 million in addition to $10 million central project constitutes credit ceiling not for Central Railway but rather for all railways other than Santos Jundiai prior to passage reorganization legis. Any such statement to Braz wld be disastrous. Assuming $15 million devoted to central suburban cars, we must have latitude for emergency rehabilitation loans to other railways during next few months while Lafer is obtaining passage reorganization legis.

6. I cannot emphasize strongly enough the importance as I see it of basing our actions vis-à-vis Braz at this time on a sober realization that Braz patience is running out. It is not necessary to remind the Dept that Brazs are convinced that in granting econ assistance to other important countries US has acted with despatch when high policy considerations have been involved. I also do not need point out that Brazs are not asking for grants but for loans for vitally important purposes.

7. I do not wish to be alarmist, but it seems to me Braz leaders right now are questioning whether close econ collaboration with US is a useful policy. We shld realize that our failure to provide convincing assurance on this score can have important repercussions in other fields vital to us including the mil and polit fields.

JOHNSON

Miller files, lot 53 D 26, "Brazil"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Brazil (Johnson)

SECRET [WASHINGTON,] May 31, 1952.

DEAR HERSCHEL: From your telephone conversation and the message[1] from Lafer, our maneuver has apparently worked since I gather that Lafer will proceed with the free market proposal next week. If this deduction is correct we are over this hump. In such an event the Eximbank can announce next week $50 million of loans to the American & Foreign Power Subsidiary and the Paulista Railroad and very soon thereafter should be able to announce the Santos–Jundiai loan, making a total of roughly $60 million from the Eximbank.

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[1] Not identified.

As to the International Bank, my message[2] referred to an aggregate of $42 million of loans, namely, $25 million to the Central do Brasil and $17 million to the Light. Developments during the last week may lead to the eventual modification of this. Valentim Boucas has been arguing vigorously with Black with regard to the Rio Grande do Sul loan and, as of the end of the last bout on Thursday, Black appeared to be getting softened up somewhat. However, Black seems to feel that until the free market bill is passed he should not put into Brazil much over $40 million (although he might be willing to make the Light loan in addition). In such an event, if he went ahead with the Rio Grande do Sul loan, he told Boucas that he would have to cut down the Central do Brasil to about $15 million. At this point apparently Boucas exploded and accused Black of breaking a commitment. There was apparently a very unpleasant scene in which Boucas at one point was on the verge of walking out of Black's office and threatening to recommend to Lafer that they suspend all dealings with the International Bank. Black thereupon asked that he be permitted to think about the problem over the weekend and Boucas is coming back from New York to have lunch tomorow. Thus, as of this writing, our heroine is again tied to the railroad track, but I think that she will be snatched from disaster next week. My earnest hope is that Black will make the Rio Grande do Sul loan and the full $25 million for the Central and that after a few weeks he will probably also add the Light. This will make a total of over $120 million of loans from the two banks and it ought to create a very good atmosphere. I am, of course, a little bit concerned over some of the connotations of Lafer's message in which he, in effect, puts the Secretary and me on the spot to produce automatic financing for Joint Commission projects as they are approved. However, I take it that this is customary Brazilian needling. Also I think that we will have some trouble in getting immediate financing for the Parana–Santa Catarina Railroad since the project has not arrived in Washington yet. My own feeling is that after the expected announcement in June of $100–$120 million of loans by the two banks, it will be hard to expect anything more until the free market bill is actually passed. Once that is done, then things ought to proceed very rapidly. In your discretion, you might point out to the Minister how important we consider actual passage of the free market proposal. If a long period of time elapses between the announcement of the government's support of the Gentil Bill and the actual passage of it, pressure will start building up in the financial community against Brazil just as it has been building up in the last few months. As a matter of fact, there are elements in the financial community who are opposed to Black's doing anything in the way of loans until the free market bill passes and others who seek to limit the amount of loans to be announced now to token sums. I, of course, disagree with this but it is part of the facts of life.

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[2] Not identified.

Black has not been particularly helpful. While he sees the point of view of the business community with all too perceptive eyes, he seems to have blinkers on when it comes to trying to understand the Brazilians. He talks to a person like Boucas just as if he were talking to a prospective borrower in the Chase National Bank, everything being on a take-it-or-leave-it basis. The fact that the U.S. Government has an investment of over $3 billion in the Bank seems to have no effect whatever in determining his judgment. At times I believe that the real Executive Director of the Bank is not the Assistant Secretary of the Treasury but Leo Welch of Standard of New Jersey. I sometimes regret that we ever created the Bank (your friends Messrs. Acheson and Miller having played a leading role in the launching of it at Bretton Woods[3]) or that we made the decision in February of 1951 to make the International Bank the institution of first recourse for Brazilian development loans. However, in extremis, we could fall back on the Eximbank and that possibility constitutes the one method of bringing leverage on Mr. Black. Thus far I have played it out as patiently as possible. Merwin Bohan and I have throughout this week tried to exercise a soothing influence on Boucas and we have thus far dissuaded him from pulling out of the International Bank which he on several occasions threatened to do on the theory that the Bank is not living up to the commitment which Mr. Black made to Mr. Lafer last September. However, if the time ever comes when it appears necessary to take the position that the Bank has not lived up to that commitment, then it would be possible, it seems to me, to review the earlier decision with regard to the preferential position of the International Bank for loans to Brazil. This would, of course, cause repercussions of enormous magnitude, but, if and when the time comes when we have to do this in the interests of U.S.-Brazilian relations, I am prepared to do it. I hope I never have to face up to the decision.

While in New York Boucas has apparently been conducting negotiations with the National City Bank for a substantial loan to Brazil based upon a negative pledge agreement with regard to its gold holdings in the Federal Reserve, the purpose of which is to pay off Brazil's commercial arrears. He seems extremely enthusiastic about this and feels that it will greatly improve Brazil's credit standing with the financial community. He has talked to Black also about this and Black infuriated him by saying that, under the terms of the Brazilian Government's guarantee agreement with the Bank in respect of the Brazilian Traction loans, Brazil had to get the Bank's consent before entering into such an operation. However, after Mr. Boucas exploded over than one, Black agreed to facilitate the operation in every possible way with the Federal Reserve.

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[3] Reference is to the UN Monetary and Financial Conference, held at Bretton Woods, New Hampshire, July 1–22, 1944; for documentation relating to the conference, see *Foreign Relations*, 1944, vol. II, pp. 106 ff.

With best regards,

Sincerely yours, EDWARD G. MILLER, JR.

P.S. There have been some developments since I dictated the foregoing which make the first part of the second paragraph of this letter subject to some question. I understand that Black will *not* make the Light loan at all if he makes the Rio Grande do Sul loan even though he cuts down the Central. However, Boucas and Walther Moreira Salles are lunching with him today and are to see the Eximbank later. We will probably have more news before the afternoon is out. It is good to have Walther here and he has plunged right into full activity on his first day.

EGM 6/3/52

832.00 TA/6–452: Telegram

The Ambassador in Brazil (Johnson) to the Department of State

CONFIDENTIAL PRIORITY RIO DE JANEIRO, June 4, 1952—6 p. m.

1536. For Bohan.

1. Presume IBRD keeping you informed activities their del here, but summary report fols.

2. Bank del informed Lafer last night willing proceed negot Rio Grande loan, i.e. legis no obstacle. Further informed Lafer bank prepared negot immed on project Nr 1 for Central Railway, amount of which estimated by bank at $12.5 million after allowances for contingencies. Bank del stated, however, that further $15 million for central suburban cars cld not be firmly assured by June 30, since wld require further study and wld have to be considered in light further progress on free market legis (not quite clear whether bank del said, or Lafer understood, that granting this loan contingent upon actual passage free market legis). Bank del reports Lafer extremely pleased and that he did not press with them for additional projs (e.g. National Alkali, Parana–Santa Catarina or Salto Grande) except that he expressed hope loan for third unit Paulo Afonso cld be pressed through in order that initial package wld "provide something for north." Min has requested Berenhauser present latter proj to joint comm as soon as possible, but

since this proj hinges upon difficult (even dubious) market study, believe impossible for joint comm and bank act within proposed time sched.

3. "Package" which thus emerges same as that formulated in Embtel 1451, May 22,[1] minus loan on central suburban cars. Lafer clearly strongly desires include Parana–Santa Catarina in June 30 package although we cannot say this indispensable to acceptable resolution present crisis. Fact Lafer failed mention this proj to bank del merely reveals his hope it will be handled by Eximbank. Wld appreciate early advice as to which bank handling this proj and as to prospects firm assurance thereon before June 30. Pls advise similarly re Rio road proj, polit importance of which obvious.

4. Understand from Lafer Black agreed not proceed further with Braz traction loan until proj presented through normal channels joint comm. Pls confirm.

5. As result foregoing events situation has eased here immensely. We consider immed crisis resolved, although additional firm assurances before June 30 on Parana–Santa Catarina and Rio road proj wld be most helpful and we urge their inclusion in "package" if at all possible. We have no doubt these additions, which wld appeal to Braz as positive step, wld substantially buttress Lafer's polit influence, expedite passage free market bill, and create warm atmosphere for Secretary's visit.

JOHNSON

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[1] *Ante*, p. 579.

Editorial Note

On June 5, 1952, the Export-Import Bank authorized the following three credits: (1) $41.14 million to seven subsidiaries of the Brazilian Electric Power Company for the purpose of financing, with minor exceptions, purchase in the United States of materials and services in connection with a project for the expansion of electrical power in Brazil; (2) $8.6 million to the Santos a Jundiai Railway to finance the purchase of railway equipment; and (3) $7 million to the Paulista Railway also to finance the purchase of railway equipment. For additional information on these credits, see Export-Import Bank of Washington, *Fourteenth Semiannual Report to Congress* (Washington, 1952), pages 15–18.

On June 27, 1952, the International Bank for Reconstruction and Development authorized the following two loans: (1) $25 million to the Comissão Estadual de Energia Elétrica of the State of Rio Grande do Sul to assist in financing the development of an electric power program; and (2) $12.5 million to the Brazilian Government to finance the purchase of equipment in the United States for the rehabilitation of the Central do Brasil Railroad. For further information, see International Bank for Reconstruction and Development, *Seventh Annual Report to the Board of Governors 1951–1952* (Washington, 1952), pages 26–28.

On July 3, 1952, the Export-Import Bank authorized a credit of $5 million in favor of the State of Minas Gerais to finance the purchase of agricultural equipment in the United States for resale to Brazilian farmers through regular commercial channels.

On September 4, 1952, the Export-Import Bank authorized a credit of $67.5 million to the Industria e Comercio de Minerios, S. A., a joint United States-Brazilian owned corporation, to assist in financing the production of manganese ore from deposits in the Federal Territory of Amapa in Northern Brazil.

On October 10, 1952, the Export-Import Bank authorized the following two credits: (1) $18 million to the Banco Nacional do Desenvolvimento (National Economic Development Bank) to finance the purchase of agricultural equipment in the United States for resale to Brazilian farmers through regular commercial channels; and (2) $1.86 million to the Cia. Metalurgica Barbara to finance purchase in the United States of the supplies and equipment needed in connection with expansion of the company's existing facilities in the State of São Paulo for the production of cast-iron pipe. See minutes of the National Advisory Council meeting, October 10, 1952, page 595.

On December 24, 1952, the Export-Import Bank authorized a loan of $7.5 million to the Companhia Vale de Rio Doce, S. A., to assist in financing the purchase of locomotives in the United States.

For additional information on the Export-Import Bank loans of July 3, September 4, October 10, and December 24, 1952, see Export-Import Bank of Washington, *Fifteenth Semiannual Report to Congress* (Washington, 1953), pages 8–11.

On April 30, 1953, the International Bank for Reconstruction and Development authorized a loan of $3 million to the State of Rio de Janeiro to finance the purchase of equipment in the United States required for maintenance and construction of highways. For additional information, see International Bank for Reconstruction and Development, *Eighth Annual Report to the Board of Governors 1952–1953* (Washington, 1953), page 8.

On June 3, 1953, the Export-Import Bank authorized a credit not to exceed $2.5 million to the Companhia Brasileira de Estireno to assist in financing the purchase of materials and services in the United States required for construction of a plant for the production of styrene monomer, used in the making of plastic. For information on this loan, see Export-Import Bank of Washington, *Sixteenth Annual Report to Congress* (Washington, 1953), page 8.

On July 17, 1953, the International Bank for Reconstruction and Development authorized a loan of $7.3 million to the State of Minas Gerais to finance purchase in the United States of equipment and services for electric power development. For additional information, see International Bank for Reconstruction and Development, *Supplement to the Eighth Annual Report* (Washington, 1954), page 3.

On December 18, 1953, the International Bank for Reconstruction and Development authorized the following two loans: (1) $12.5 million to the Government of Brazil to finance improvements in the surburban service of the Central do Brasil Railroad in Rio de Janeiro; and (2) $10 million to Usinas Elétricas de Parapanema, S. A. (USINAS) to finance the development of hydroelectric power in the State of São Paulo. For additional information on these loans, see *ibid.*, pages 3–4.

On February 24, 1954, the International Bank for Reconstruction and Development authorized a loan of $18.79 million to the Brazilian Traction, Light and Power Company to finance the purchase of equipment and services in the United States required in connection with a thermal-electric power project at Piratininga near São Paulo (398.14/3–254).

On June 17, 1954, the Export-Import Bank authorized a loan of $15 million to the Banco do Brasil to assist in financing the purchase of approximately 200,000 tons of wheat through private trade channels in the United States. For further information, see Export-Import Bank of Washington, *Eighteenth Semiannual Report to Congress* (Washington, 1954), pages 11–12.

On November 26, 1954, the Export-Import Bank authorized a credit of $1.5 million to the Fongra Produtos Quimicos, S. A., to finance the purchase of equipment in the United States for a new chemical plant under construction in the São Paulo area. For additional information, see Export-Import Bank of Washington, *Nineteenth Semiannual Report to Congress* (Washington, 1955), page 7.

Editorial Note

Secretary Acheson visited Brazil between July 2 and 8, 1952, on return from his trip to London, Berlin, and Vienna which commenced on June 22. Documentation relating to the preparations for his visit to Brazil is in file 110.11 AC. For text of his major addresses delivered in Rio de Janeiro and São Paulo, and excerpts of his remarks before the Brazilian Chamber of Deputies, see Department of State *Bulletin*, July 14, 1952, pages 47–51; and *ibid.*, July 21, 1952, pages 87–91. The Secretary also discussed the visit in his memoirs, *Present at the Creation: My Years in the State Department* (New York, 1969), pages 666–670.

110.11 AC/7-1452

Résumé of Discussion Held at the Presidential Palace, Rio de Janeiro, July 5, 1952[1]

CONFIDENTIAL

Participants:	His Excellency Getulio Vargas, President of Brazil The Honorable Dean Acheson, Secretary of State of the United States His Excellency Dr. João Neves da Fontoura, Minister of Foreign Affairs of Brazil His Excellency Dr. Horacio Lafer, Minister of Finance of Brazil
Other Americans Present:	Ambassador Herschel V. Johnson Assistant Secretary of State Edward G. Miller Mr. Randolph A. Kidder Mr. William A. Wieland
Other Brazilians Present:	General Aguinaldo Caiado de Castro, Chief of President's Military Household Dr. Walter Sarmanho, Minister-Counselor, Brazilian Embassy, Washington Dr. Roberto Campos, Brazilian Adviser to Joint Brazil United States Economic Development Commission (translator)

[Here follows a note indicating that the résumé was a reconstruction based on stenographic notes, that President Vargas was reviewing similar notes with the probable intention of making corrections, and that Secretary Acheson had departed from Brazil before having an opportunity to make corrections.]

[Here follows an exchange of amenities.]

ACHESON—One very clear and happy impression that I have is the result of my meeting with the Joint Commission yesterday morning.

I am deeply impressed with the profound thoroughness and competence with which that Commission is doing its work.

I am tremendously impressed with the high quality of the advice of the representatives of the Brazilian Government that serve in the Commission.

Mr. President, it seems to me that work of this sort has got to be done in a thorough, vigorous, competent way. It is not something that can be done with just happy enthusiastic ideas. It must be done thoroughly from a rock bottom basis.

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[1] Transmitted to the Department of State under cover of despatch 48, from Rio de Janeiro, dated July 14, 1952 (110.11 AC/7-1452).

A reconstruction of the conversation prepared by the Brazilian Government, together with a translation containing footnotes indicating differences between the two versions prepared by the Embassy, was transmitted to the Department of State under cover of despatch 334, dated Aug. 26, 1952, not printed (110.11 AC/8-2652).

I think more harm can be done by unwise and incomplete planning based on enthusiasm. Therefore, it is important that what should be done would be best developed on careful studies, directed toward coordinating public and private initiative.

I have no competence to appraise the specific work of this Joint Commission, but I have had long experience with men and organizations When I go back to Washington I shall speak to Mr. Black of International Bank and Mr. Gaston of the Export-Import Bank and say that they can have confidence in this Commission; that it is thoroughly and professionally good; they do good work.

My impressions are incomplete since I still have the impression that I will receive in São Paulo. I shall report to the Finance Minister my impressions in São Paulo. He will complete to Your Excellency the résumé of my impressions.

Vargas—President Roosevelt told me once that the United States had the greatest interest in the economic development, and especially in the industrial development of Brazil; because the United States wanted a strong ally, not a weak ally. President Roosevelt believed that the wealthier Brazil becomes the more it would buy from the United States. President Roosevelt did not fear that Brazil would thereby become an industrial competitor of the United States. He felt, rather, that the range of possible interchange would be widened. And this policy I see with satisfaction is being followed by President Truman. An example of this is the operation of Point IV throughout the Latin American countries, beginning with Brazil, which because of its extension and traditional relations with the United States, believes, without being partial, it should really deserve preference in these economic relations.

Some weeks ago I had a talk with Ambassador Johnson and Ambassador Bohan and I manifested my concern over what I considered a delay in the work of the Joint Commission, and commented on the repercussions of this delay on Brazilian public opinion, giving rise to skepticism regarding the efficiency of its labors. I must confess that I realize that since then things have improved considerably; that several projects were concluded by the Joint Commission and duly forwarded to Washington, and that today I am the first to recognize and praise the effort and the competence displayed by the Joint Commission in carrying out its task.

(The President asked Minister João Neves da Fontoura for his comments.)

Fontoura—I have spoken twice with The Secretary of State and I emphasized to him the importance of the internal aspects of Brazilian policy which are bound to reflect inevitably on our foreign policy. And I told His Excellency that our friends in the United States should carefully interpret the character of the election of President Vargas, who was the opposition candidate, elected by the masses and committed, of course, to help meet the needs of the people. I signified that without this notion, many of the Government's acts could not be understood. I added that the competitors in the election campaign of His Excellency were illustrious, competent and distinguished men. Despite these qualities which they had, it would be extremely difficult for them to face a crisis because they could not count on sufficient popular support to be able to fulfill their promises to the masses, once they were in power. They would not be able to impose sacrifices on the masses to achieve future improvements. I was pleased to hear The Secretary of State, a man of great experience and understanding, say that he considered that no government can subsist at this time if it does not attend to the appeals of the people. He mentioned the New Deal as an example. He also advanced as his personal opinion in this respect, that without doubt, the Democratic Party has a good chance to win the elections, because it has always sought to meet the needs of the people.

The last consideration I wish to add is that the present conduct of our foreign policy stems straight from directives given by President Vargas when he was still a candidate, and subsequently President-elect. I am now trying to implement his policy in the foreign field.

This was the policy I took as Delegate in the Fourth Consultative Meeting of Foreign Ministers in Washington.[2] Furthermore, when the Secretary of State presented the project of the Washington Declaration,[3] I did not sign it without express consultation by telephone with President Vargas, even though I did not believe that it contained any policy innovations. Our policy of cooperation with you is the same now as it was under President Vargas' previous Government. But new problems have emerged under Getulio's new Government, and although the policy is the same, the nature of these problems requires some adaptation.

Today when the Secretary of State was saying goodbye to me, I told him that he knows Brazil, has seen Brazil, and was able to see that everywhere he had a very cordial reception. He has talked with public officials, Members of Congress and the people. He saw that this cordiality was spontaneous; that it could not be enforced on all classes of the people by a democratic government. The government reflects public opinion, and this proves the sincerity of the feeling of cooperation demonstrated by our administration.

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[2] For documentation on the meeting, held Mar. 26–Apr. 7, 1951, see *Foreign Relations*, 1951, vol. II, pp. 925 ff.

[3] For text, see *Fourth Meeting of Consultation of Ministers of Foreign Affairs: Proceedings* (Washington, 1951), pp. 236–237.

(The President invited Minister of Finance Horacio Lafer to present his comments on economic problems, asking him to include an expression of his views on the degree of success achieved by the Joint Commission.)

LAFER—Mr. Secretary, a Finance Minister always has things to request. But I ask you not to be frightened because the President told me to behave myself as much as possible.

The Brazilian situation may be characterized as President Vargas defined it—a crisis of growth. And this crisis has brought a perilous result which is the excessive rise in the cost of living for our people. This rise had two causes: one of a monetary nature; the other resulting from lack of production. President Vargas, despite obstacles, with enormous sacrifices, struggling against all the States, political parties and friends, is determined to curb the monetary cause by achieving a balanced budget. Brazil is today in a regime of budget balancing, not spending more than its possibilities, not granting speculative credits, and avoiding everything which for monetary reasons may afflict the Brazilian people by causing a rise in their cost of living.

The second cause is lack of production. That in turn has one chief origin, the lack of transportation—land and sea, lack of silos and warehouses. We are losing in Brazil around 25 or 30 per cent of the food yearly produced due to lack of transportation. Last year we had the paradox of being obliged to import potatoes from Holland when we had loads of potatoes produced in Paraná which could not be used, and which rotted for lack of transportation.

It was because of this that President Vargas, when sending me to Washington last year, gave me instructions to present a plan, based on the Joint Commission's studies, and according to which Brazil would contribute 50 per cent of the financing required, in cruzeiros, to meet those needs, while requesting credit in foreign currency for the importation of indispensable equipment and materials. President Vargas thus wanted to show that Brazil does not want only to request help but also to contribute and to work on the principle of self-help.

The President has aked my opinion on the work developed by the Joint Commission. I must say that the work so far done by the Joint Commission, and the work still to be performed, if the necessary support is forthcoming, as I am certain it will be, because it was nobly and understandingly promised in the document which has the honor to have the signature of Mr. Acheson in Washington last year, will represent the guarantee of Brazilian social stability. And, in my opinion, it will contribute the best basis for a stronger friendship between Brazil and the United States.

Only one small point I would like to ask Secretary Acheson, and ask also President Vargas and Dr. João Neves da Fontoura because all of them are friends of Mr. Black. This is that Mr. Black set up an organization that will make possible more expeditious action on the studies presented to the International Bank by the Joint Commission. As Mr. Acheson said, the projects which leave here for the International Bank represent a careful, accurate and perfect study. So, this study alone should constitute a reliable base for a rapid decision.

I beg to go from a general point of view to slip in a point more particular in nature, but very important. Brazil, as Mr. Acheson said in his admirable speech,[4] has a tremendously big coast. Food and other goods we have to transport from south to north and from north to south. Our merchant marine fleet is worn out and inadequate. When last year we had the drought which greatly harmed the Northeast, we had great difficulty in getting rice and beans in the South to send urgently to those people who were suffering hunger. Our ships are worn out and obsolete. If it were possible for the Secretary to use his high influence to enable Brazil to purchase or lease ships of the mothball fleet it would be a great thing for the urgent solution of this problem. It would be an enormous help to Brazilian economy. We would prefer 20 small ships today to 200 "Queen Marys" 100 years from now. Our coastwise transportation problem is really of the greatest urgency. But trans-ocean shipping must also be developed. It is not the impossibility of getting shipping space, but the high foreign exchange expenditures for freight. Of course we have ships of other countries available but we must expend almost 200 million dollars a year for their shipping services. If we could save a part of these dollars by carrying our shipments in our own ships we could save money with which to buy machinery and other goods which Brazil really needs, including equipment and materials to develop agriculture.

Another point, which is more by way of explanation: it refers to the basic product of Brazil—coffee. Mr. Acheson should know and understand that Brazil does not wish excessive prices for coffee; but coffee is our main currency for paying for our imports; and if we do not have a price for coffee on the same level as that we pay for imported merchandise, the sacrifice will be tremendous for Brazilian economy and for our imports, which would have to be curtailed. Therefore, it is within this criterion that we wish the American Government to regard all the problems related to coffee, since in the past and still today coffee is the basis of Brazilian economic stability.

Unless the President has other instructions, those are the comments that I would like to make at this stage. I wish to conclude by saying that Mr. Acheson has conquered the hearts of all Brazilians, (*smiling*) and what is more alarming including those of the Brazilian women.

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[4] Reference is to the speech made at a banquet in the Secretary's honor given by Brazilian Foreign Minister Neves da Fontoura, at Itamaraty Palace, Rio de Janeiro on July 3, 1952; for text, see Department of State *Bulletin*, July 14, 1952, pp. 47–51.

VARGAS—I wish to second the appeal made by the Finance Minister with relation to ships, of which Brazil has at present a great need. Brazil has 6,500 kilometers of sea coast. One-third of its merchant marine fleet was destroyed by submarines during the last war. Some of the German ships that we had taken over were ceded to the United States during the war. Today our merchant marine, one can say, is falling to pieces. It is in constant need of repairs to such an extent that it is naturally impossible to cover operating costs from receipts. Very soon many of them will be laid aside because they are unserviceable. Under these conditions I appeal to the Secretary, as the representative of President Truman, that through sale or lease we be granted some ships. This matter is now being studied by the Joint Commission, but as it depends essentially on the goodwill and understanding of the American Government, I make this appeal now to avoid further delay of a solution. I shall work on this matter and prepare a memorandum for the examination of the Joint Commission for it to submit to Washington as soon as it has worked on it.

I must mention that Brazil is the second largest market in the world for United States goods. It is surpassed only by Canada. This was the appeal that I had to make, recalling an old saying here in Brazil "Os negócios claros conservam a amizade". (*Interpreter's translation: "Clear and straight business preserves friendship". The word "straight" was added by the interpreter.*)

I wish to add that we are taking steps to improve our port situation. Dredging operations have been contracted for, and administrative measures are being taken to facilitate loading and unloading of ships, in order to reduce time of stay at ports.

The ports will soon be cleared and have empty berths, ready for the new ships to come.

And further, I wish to reiterate my thanks for the honor of the visit of The Secretary of State, expressing the hope that from what he has been able to see and observe he takes with him a good impression, and I sincerely hope that he will defend our interests and aspirations upon his return.

ACHESON—I wish to make one or two comments. (*Two or three sentences unheard.*) Within a few days after the President's election as President of Brazil, some of your trusted advisers were working with us, on the plans which resulted in the operation of the Joint Commission. Only two or three days ago a loan was announced by the International Bank for hydro-electric power in the State of Rio Grande do Sul. This is very important for the economic development of Brazil. This is still a young administration; it has not gone very far, but fruits have already been harvested. The work of the Commission, of course, had help from the bankers. The projects submitted to the consideration of the banks might be compared to Rio traffic. When you have motorcycle escorts to get obstacles out of the way, you move very fast. But when there are traffic jams, all the horns start blowing and no one makes any progress. Work in banks is no different. On my return, I will request that the banks expedite your matters.

The matter of shipping that the Minister of Finance spoke about presents a very difficult problem for President Truman, because he does not have legislative authority to transfer these ships. This calls for legislation which is difficult to obtain under any circumstances and especially now that Congress is on vacation. Also because this is an election year, and two very powerful groups that are interested are the shipping companies and the Maritime Commission. It is almost impossible to touch on this problem.

This question is being examined and will continue to be examined carefully. It may be found advisable to consider a possible alternative which might be assistance from the United States to enable Brazil to repair and construct its ships for coastwise navigation. Both of these things might be studied carefully. The solution will not be possible, until Congress opens, and this will be a matter to be decided next year when President Truman will not be there and I will no longer be the Secretary of State. All I can do is to indicate the problem and have some recommendations to make.

Mr. President, there are some matters which are of interest to my government, which I know are being given careful consideration by the Brazilian Government. I do not wish to discuss these matters but merely to mention them. At this moment they are being studied by the Minister of Foreign Affairs, by the Minister of Finance or other Government Departments. I do not wish to request any specific decision, but only that there be some decision. I know that whatever decision is reached will be a reasonable and wise one. Some of these problems relate to strategic materials. I know the problem is a difficult one for you, but I hope we can reach a conclusion. There are also problems related to the question of shipping. Some time ago we discussed with your military advisers participation of Brazil in Korea. If you could consider it, it would be very helpful. (*One brief remark unheard.*)

I should like to mention a matter in very great confidence. It may be of significance or it may not. I wish to inform you that within the last two or three days there has been a marked change in the attitude of the communists during the negotiation for exchange of prisoners. I give you this information in confidence.

We have had these changes in the past. Sometimes they are important, at others without significance, just means of propaganda. This time it may be significant. I do not allow myself to be too optimistic. But there has been a change in the last days, and more of a desire to discuss exchange of prisoners—and this gives me some hope.

The reason I mention this is because it will have a great effect on the international situation if there is an armistice in Korea. We may get some idea of the effect of this if we consider one or two facts about our own effort in Korea.

For instance the supplies we are sending to the front in Korea engage more shipping than the highest volume shipped at any time during the war with Japan. This will give you some idea of the transportation problem confronting the Trans-Siberian Railway. Another fact which is of importance here is the expenditure of ammunition per division on the front; it is six times greater than ever was reached during the last world war. You see this struggle imposes such stress on United States economy, we can get some idea of the strain on Soviet economy. So you can see why this development in the struggle in Korea becomes significant. It is this fact more than any change in attitude on prisoners that leads me to have some hope. If the fighting in Korea stops, we will not have come to the end of the Soviet effort. Only the military phase would be ended, and the new phase of infiltration will begin. The matter will come before the Fall Assembly of the United Nations when the Far East question will be discussed. I shall then see Minister Neves da Fontoura at the General Assembly and I will have the opportunity to discuss matters with him for common guidance. We will have to consider together very carefully and treat the problem coolly and realistically.

Political stability in the Far East will create conditions of stability which . . . (*some remarks missed*). I thought it was important to lay this situation before you because we must be the ones to bring coolness and wisdom to consideration of the Far East. Some of our colleagues are very enthusiastic. We must be the ones to cool them off. Dr. Neves da Fontoura knows the people I have referred to.

Fontoura—(*Smiling*) I know them well.

Acheson—Mr. President, these are the only observations I had to make and I want to thank you for the close and intimate consultation which you let me have with you and your great advisers.

Vargas—Consideration is being given to Brazilian interests in the Joint Commission and among those interests is the question of shipping. Maybe the Commission will find a solution for this very pressing problem. I understand legislative difficulties, but I was not aware that they existed. Perhaps I will find a solution. I regret that President Truman is not again a candidate, as the Constitution of his country permits. Perhaps this would have made things easier.

We took into consideration what the Secretary mentioned with regard to the international situation. Several commissions, civil and military are studying the various problems of common interest. On the part of Brazil every effort will be made to overcome difficulties in the treatment of those problems provided Brazil's ability to maintain the social order is not impaired. Brazil is studying the responsibilities that it must undertake in the international situation. They should be proportionate to the authority which may be recognized to Brazil in international decisions, the means that will be assured to it, and account must be taken of the time indispensable for its preparation for the fulfillment of such commitments.

I thank you and everybody present for the success of the conversation.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 197th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held in Washington, October 10, 1952 [1]

RESTRICTED

[Here follows a list of those present (26).]

1. *Proposed Export-Import Bank Loans to Brazil*

Mr. Glendinning stated that the Export-Import Bank had requested the advice of the Council with respect to two loans in Brazil. One of the loans, a credit of $1.86 million, would be to a private Brazilian company that manufactures cast iron pipe. The other loan, of $18 million, would assist in financing Brazilian purchases of United States agricultural equipment. In the discussion of these loans in the Staff Committee, no questions were raised on the technical side. Considerable interest was shown, however, in Brazil's current international short-term position and in the prospects of more favorable treatment for American private investment in Brazil.

Mr. Glendinning noted that the basic questions are how U.S. development lending should be affected by Brazilian action in dealing with Brazil's current unfavorable balance-of-payments position and with its treatment of U.S. private investments. Brazil's current international position is shown by reserves of approximately $317 million, and short-term liabilities of between $300 and $400 million. In addition, Brazil has a sizable payments backlog with Britain and Germany. Conflicting reports exist on the effectiveness of credit control in Brazil. There are indications that control of bank credit has been rather limited and relatively ineffective. With respect to the Brazilian action on private investment remittances, legislation has been introduced providing that such remittances would have access to a free exchange market. This legislation, which is supported by the Brazilian Executive Department, is still pending.

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[1] The National Advisory Council (NAC), established in 1945, had responsibility for coordinating the policies and operations of U.S. representatives to the IMF, the IBRD, and all other agencies of the government involved in making foreign loans or engaging in foreign financial, exchange, or monetary transactions. The NAC consisted of the Secretary of the Treasury, as Chairman; the Secretaries of State and Commerce; the Chairman of the Board of Governors of the Federal Reserve System; the Chairman of the Board of Directors of the Export-Import Bank; and, originally, the Administrator of the Economic Cooperation Administration (followed by the successive administrators of U.S. agencies for foreign aid).

At this meeting, Deputy Assistant Secretary of State for Economic Affairs Linder represented the Department of State; he was accompanied by Mr. Corbett and Mr. Stenger.

Mr. Glendinning concluded that considerable discussion occurred in the Staff Committee concerning additional U.S. lending to Brazil in the light of Brazil's current treatment of private investors. During that discussion the representative of the Securities and Exchange Commission had commented on the effect of Brazil's action on the financial position of the American and Foreign Power Company.

Mr. Gaston stated that both loans are considered to be economically justified by the Export-Import Bank as well as by the Joint Brazil–United States Economic Development Commission. The Bank is also satisfied with their soundness. From the point of view of the economy of Brazil, the farm implement loan is a valuable project. As to the other factors, in view of the steps being taken by Brazil, the problem of the arrearages should not be insurmountable, nor does the Bank think further lending should depend on such long-range problems as the inflationary situation, devaluation of the cruzeiro, and associated questions.

Concerning the issue of making loans while the investment legislation is still pending, Mr. Gaston indicated that this is a question for others than the Export-Import Bank to judge. The Bank's impression is that the present Brazilian Government is proceeding in good faith in its attempt to carry through that legislation, and that to interrupt a soundly conceived lending program on the ground that the United States must wait until the legislation is passed would be a mistake. However, Mr. Gaston added that question is in the diplomatic field, and he would defer to the State Department in that respect.

Mr. Rossbach[2] pointed out that the primary concern of the Securities and Exchange Commission was with the American investor. His situation in Brazil does not look well and has become worse in the past year.

Mr. Rossbach expressed the feeling of the Commission that the only way to try to improve the position of the American investor would be by withholding additional loans to Brazil until someone had talked firmly with the Brazilian Government. He agreed, however, that this procedure would be in the field of diplomacy, in which the SEC is not qualified to act. Mr. Rossbach concluded that it did not appear justifiable to make these loans while the position of the American investor in Brazil is so poor.

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[2] J. Howard Rossbach, Securities and Exchange Commission.

Mr. Linder began by saying the State Department was not unmindful of the situation of the American investor. However, he believed a different conclusion from the one arrived at by Mr. Rossbach could be drawn from the same facts. Although a good deal of discussion has taken place with the Brazilians, it is impossible to talk to each man in the legislature. The Brazilians have fulfilled their commitment. In fact, they have gone further than that. Both committees of the legislature have endorsed what the United States wants—convertibility arising out of capital transactions. The situation is complicated by reason of the fact that certain exporters have wanted to get on the bandwagon.

Mr. Linder remarked that the judgment of the State Department is that holding up these loans would have just the opposite result to that normally expected. The Brazilians are likely to draw the conclusion that the only time the United States Government will make loans is when our own special interest is involved. As an example, recently a $65 million manganese development loan was made to Brazil. To the State Department it would appear to look very bad, and would induce a very stubborn and unfortunate reaction, if we distinguish between the manganese and other loans. This would have the reverse effect from what everyone here desires.

Mr. Overby indicated that he would like to report the opinion of Mr. Black. The International Bank has had discussions with the Brazilians about the free market bill. In June, 1952, when the Bank made two loans to Brazil (see NAC Action No. 558[3]), it was given assurances that the bill would be passed promptly. The Bank management has taken the attitude that the Bank should not go ahead with additional loans to Brazil until the free market bill with respect to capital transactions has been enacted. Thus various projects are being held up and no final action will be taken until the free market bill is passed. Mr. Black also indicated that the granting of loans now would weaken the Brazilians in going ahead with the free market legislation and that he could not avoid the view that an element of non-parallelism exists in a situation in which the International Bank does not proceed with loans while the Export-Import Bank continues to make them.

Mr. Overby concluded that he believed the above statement fairly represents Mr. Black's views, i.e., opposition to the proposed loans. Since Mr. Black believed it unwise for the International Bank to make loans to Brazil at the present time he would like to see the United States come to the same conclusion with regard to loans by the U.S. Government.

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[3] Not printed (NAC files, lot 60 D 137, "NAC Actions").

Mr. Gaston observed that all would agree that one objective is to ease the difficulties of American investors in Brazil by adopting methods most likely to relieve their situation. The disagreement seems to be over which method would produce the best results. In commenting on Mr. Overby's remarks, he questioned whether the Brazilians had not made predictions rather than given assurances. He did not believe that the President of the United States could have given assurances in a similar instance.

Mr. Gaston believed a judgment has to be made whether closing the gate on Brazil would so disturb the Brazilians as to complicate United States-Brazilian relations. He believed that is the situation seen by the State Department, and that the problem is to decide on the best tactics. By cutting off the proposed Brazilian loans, he concluded, the United States would be doing itself damage.

Mr. Martin[4] agreed that the basic question is a matter of judgment and that it is wise to accept the judgment of the State Department and the Export-Import Bank. He pointed out that the Bank is satisfied with the soundness of the loans and that the Government has to rely on the conduct of negotiations as to what progress is being made.

The Brazilian short-run picture, Mr. Martin continued, is one of mismanagement and difficulties that the Brazilians are perhaps compounding, and every effort should be made to assist them to take steps to protect not only the investors, but the solvency of Brazil as well. Particularly since the International Bank has a different attitude, the Council should take note of the present difficulties of the Brazilians and should place the burden of responsibility on the State Department and diplomatic officials to obtain some solution of the fundamental problems.

The Chairman stated he believed that the State Department has faced this responsibility. He recalled that in discussing the Brazilian situation with Mr. Acheson, he was advised that the State Department was fully prepared to carry the matter through. The Department felt that the granting of these loans would put the situation on a better diplomatic level. The Department has the strongest assurances from the Brazilian executive side that this matter will be pushed through—so there has not been any neglect of the gravity of the situation. The Chairman concluded that, when Finance Minister Lafer was here, he and Mr. Acheson had impressed on the Finance Minister and the Brazilian Ambassador that the matter was one that had to be given very prompt consideration and had to be pressed on through.

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[4] William McChesney Martin, Jr., Chairman, Board of Governors of the Federal Reserve System.

Mr. Linder commented that he had considerable sympathy with the point of view of the International Bank, but he did not believe the two Bank situations were the same. The International Bank has the problem of the sale of its securities and the attitude of the public. He added that the State Department would be perfectly agreeable to the exertion of such pressure as is likely to bring about results.

The Chairman remarked that the U.S. Government cannot continue to lend funds without some definite assurances from the Brazilians that they will go through with the plans to the best of their ability.

Mr. Schneider[5] said that the Department of Commerce would go along with the State Department. He questioned, however, the wisdom of lending money to a private Brazilian company for the manufacture of cast iron pipe, since the company is in competition with U.S. exporters.

Mr. Gaston explained that the Bank was lending a relatively small amount for the purchase of American materials in order to have a part in the construction of the pipe plant. It has been a part of the Bank's policy to encourage private industry in foreign countries to expand. This industry will not be in competion with American industry because he did not believe there was any movement of pipe of this character at this time. It would seem rather illogical, he felt, for a country with Brazil's iron resources to import so bulky a product as this large-dimensional pipe from the United States.

Without further discussion the recommended action was approved.

Action: The following action was taken (Action No. 581):

The National Advisory Council advises the Export-Import Bank that it approves consideration by the Bank of two Brazilian loans: one, a credit of $1 86 million to the Companhia Metalurgica Barbara to help finance the improvement and expansion of its cast iron pipe manufacturing facilities in Brazil; and the other, a credit of $18 million to the Banco Nacional do Desenvolvimento Economico to assist in financing Brazilian purchases of United States agricultural equipment.

It is understood that the $1.86 million credit would be repaid in installments with a final maturity of approximately eight years, including a grace period of approximately 18 months, and that the interest rate would be not more than 4½ percent. It is also understood that the $18 million credit would be repaid in installments with a final maturity of approximately five years, including a grace period of 18 months, and that the interest rate would be 4 percent or less.

[Here follows discussion concerning a proposed Greek debt settlement.]

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[5] J. Thomas Schneider, Assistant Secretary of Commerce for International Affairs.

033.3211/10–1752

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Brazil (Johnson)[1]

CONFIDENTIAL
OFFICIAL–INFORMAL

[WASHINGTON,] October 17, 1952.

DEAR HERSCHEL: You have read my letter of October 11[2] to Merwin reporting on Lafer's visit,[3] and outlining the increasing difficulties we are facing up here until the remittance bill is passed and something is done about the backlog.[4]

I recognize the danger of overplaying our hand if we apply too much pressure on our Brazilian friends, but I'm wondering if this might not be a very opportune time for you and Merwin to call on the President and review the situation with him.

I assume that Vargas' recent proposal to create new government jobs for his political opponents may mean that he is getting along with them much better. Hence, he now might be able to get some support from them in pushing the remittance bill through.

Also, I gather that Lafer has checked in with the President after his trip and has passed on the views he collected up here. A visit by you and Merwin now might help crystallize his decision and speed up action.

Such a visit might backfire if the President construed it as a pressure play, but I am sure you could handle it to avoid this result.

You might indicate to Lafer that your desire for a talk with Vargas was prompted by me, because I feel that the picture has been muddied since Lafer's visit by some misunderstandings, including the recent press statement by Stanley Andrews, and I would like to have the situation clarified to the President as we now see it. Although I have not seen Ary[5] or Sarmanho personally for some time, I understand that both of them are quite bitter about the position of the IBRD. If they report to Vargas that the whole difficulty is here in Washington, it may focus Vargas' attention in this direction instead of spurring efforts to move the remittance bill along, and get on with a solution to the backlog problem.

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[1] Drafted by Mr. Cottrell.

[2] A copy of the referenced letter is contained in Miller files, lot 53 D 26, "Brazil."

[3] Minister Láfer's unofficial visit to New York City and Washington took place during the latter part of September.

[4] Reference is to the commercial debt owed by Brazil to U.S. exporters. With respect to the commercial backlog, Mr. Miller's letter of Oct. 11, 1952, reads in part as follows:

"The picture is becoming complicated by a new factor, namely, the dissatisfaction that is felt up here over Brazil's credit position and this has in the last few weeks become the prime issue in regard to Brazil both here and in New York. It is true that Lafer has taken certain courageous measures to cut down imports but the feeling is that in addition to this he should come up with some definite plan with regard to the backlog and secondly that he then should go to the root of the problem which is the devaluation of the cruzeiro. On the first of these, namely the backlog problem, Lafer met with unanimous disapproval of his idea of putting exports for the next six months on a 180-day credit basis. Mr. Snyder himself felt that this was unfair to the smaller exporters who are now waiting for their money and there was general skepticism as to whether he could get their suppliers of wheat and oil to go along. The Eximbank offered him in effect a $250 million credit for four or five years at a low interest rate for the backlog and both Treasury and Mr. Southard of the Fund supported this proposal. Lafer however did not display enthusiasm probably because of his fear that once Brazil was up to date, they would go on another spending spree. With regard to the proposed devaluation of the cruzeiro, he simply said absolutely no, and he seems to be adamant even over the proposal to put some exports up into the free market."

You might seek the audience on the grounds that both of you called on him last April, and would like to review the progress made since that date. You might say to the President that United States Government agencies in Washington and the World Bank are, thanks in part to the fine impression left by Minister Lafer, willing to help Brazil to the maximum extent in getting on with our development loan program. This goodwill was originally demonstrated when the Banks granted about $100 million in loans during the early part of the year, and has been demonstrated again by the Eximbank loans for the Barbara and agricultural machinery projects. However, although this willingness has not diminished, certain problems have arisen in the United States which have made it difficult for the Banks to continue at the rate they and we desire. You might point out that both Banks are necessarily sensitive to public opinion here, and particularly so in this election year. Consequently, they find it increasingly difficult to maintain the loan program at top speed in the face of growing impatience on the part of U.S. investors and exporters concerned with the remittance decree and the backlog. You can say that, as a result of Minister Lafer's visit, official circles here are convinced of Brazil's active interest in these problems, but the general public is not fully aware of this. They only see that their bills are still unpaid and the remittance bill is not passed. You might tell the President that you are sure he can understand this political dilemma in which we find ourselves, and you could emphasize that we do not want him to interpret this slowdown to any idea that it might be deliberate coercion on our part, or due to any lack of sympathy or understanding of his own problems.

You might tell him that it is a fact that when these two problems are solved, it will relieve the pressures on the Banks to slow down, and they will then be able to resume the normal rate.

I should tell you that we also have a selfish interest up here in promoting such a visit to the President. First, it would permit us to reply to our critics that the problem has been discussed with the President himself, and secondly, if he gives you any encouragement, it will be very helpful in bucking up other agencies here and certain skeptical individuals.

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[5] Ary F. Torres.

I hope you and Merwin will give this suggestion your best thought, and let me know what your views are. If you approve, please go ahead without any further clearance, and make your approach as you think best.

Our reports on radio broadcasts in Brazil indicate that Neves Fontoura may come up prepared to talk about the loan program. We shall discuss this subject with him along the lines outlined above.

With kindest regards,

Sincerely yours, EDWARD G. MILLER, JR.

932.512/1-1253

Memorandum of Conversation, by Sterling J. Cottrell of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] January 12, 1953.

Subject: Status of JBUSEDC Railroad Projects

PARTICIPANTS

IBRD	*State*
Mr. Eugene Black	ARA—Ambassador Merwin Bohan
Mr. Robert Garner	AR—Mr. Edward Cale
Mr. Burke Knapp	E—Mr. Emerson Ross
	OSA—Mr. Sterling Cottrell

A. *Following is a summary of the principal statements made by Ambassador Bohan:*

1. The Joint Commission expects to finish its work on March 31, with project reports completed and reviews of the railroad program by the Budd[1] group, of the power program by Mr. Ackerman,[2] and of the shipping program by Admiral Cochrane.[3]

2. Of the approximately $140 million of railroad projects, $40 million in loans have already been granted, about $50 million are now under study by the Bank, and the remaining $50 million are in final preparation by the Joint Commission and should be in finished form by March 31.

3. The railroad projects are the heart of the whole development loan program. President Vargas has repeatedly expressed his opinion that

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[1] Ralph Budd, Chairman, Special Railroad Mission, United States Section, Joint Brazil–United States Economic Development Commission. Mr. Budd was also Chairman of the Chicago Transit Authority, President and Director of the Great Northern Railway, and Director of the First National Bank in Chicago. For a list of the members of the Special Railroad Mission (the "Budd group"), see *The Development of Brazil*, p. 244.

[2] Adolph Ackerman, Special Consultant on Power Development, United States Section, Joint Brazil–United States Economic Development Commission.

[3] Edward L. Cochrane, Chairman, Federal Maritime Board.

the railroads must be rehabilitated as quickly as possible and should be given top priority.

4. When the Joint Commission was established in 1950, the most important political question was whether Vargas would lead Brazil towards cooperation with the US or towards an independent or opposition position. The hope of financing a substantial part of Brazil's basic economic development through the help of the Joint Commission may well have tipped the scales in favor of a US orientation. The Joint Commission and the US therefore have an implied obligation to see that properly prepared projects are financed.

5. Now the stage is set and positive action is required. The projects are almost complete, and the Brazilian bill to reorganize the railroads will soon be debated in Congress. A statement is now needed from the IBRD that the railroad projects, totalling approximately $140 million, will be financed—subject to clearly stated terms. This will a) enable the Joint Commission to terminate its mission properly, having fulfilled its commitments, b) give support to the passage of the railroad reorganization bill, c) indicate clearly to the Brazilians what more they must do to qualify for the loans and d) constitute an outstanding success in US–Brazil relations.

6. Failure of the Bank to provide the above assurance of financing subject to clear terms, and an indefinite delay in acting on projects already presented by the Joint Commission would:

a) Completely wipe out the prestige of the Joint Commission.

b) Make more difficult, if not preclude, passage of the railway reorganization legislation.

c) Profoundly affect US–Brazil relations and alienate President Vargas, who has always laid particular stress on the railway rehabilitation program. Vargas frankly outlined his views to us last May, pointing out his inability to understand how we gave prompt aid to rehabilitate an enemy's rail system (Italy) while so long delaying cooperation with an ally (Brazil).

B. *The views expressed by Mr. Black, Mr. Garner and Mr. Knapp are summarized as follows:*

1. Minister Lafer and other Brazilians were informed two years ago, and subsequently, that the railroad system of Brazil must be reorganized before the IBRD could make railroad loans.

2. In two years there has been little tangible progress by Brazil to improve the situation, with the exception of the draft bill to reorganize the railroads, which has not yet been considered by Congress. No decision has yet been made by the Brazilians concerning the Bank's proposal to share with it in sponsoring a railway management survey group.

3. The IBRD is interested in investing only in a sound rail transportation system in Brazil, not in financing additional equipment which

the existing badly operated lines could not use effectively. Patching up the poor existing system is unsound. The IBRD must be concerned with the soundness of its investment, in the interests of all its members.

4. The IBRD has always avoided prior commitments to lend any specific amounts. Placing conditions on such commitments is no real protection; these are rapidly forgotten and misunderstandings soon arise. The general statement of IBRD to the effect that, in principle, it believed sound projects could be developed in Brazil of at least $300 million, and that IBRD would consider such projects, was twisted by the Brazilians into a report that IBRD would loan Brazil $300 million.

5. IBRD cannot guarantee financing in advance of a detailed study of each individual loan project, and consideration of other general factors.

6. Even if the US felt that it had a political interest in the railroad projects, the IBRD is an international banking institution and cannot compromise its principles to accommodate US political considerations.

7. Although the Department should not inform the Brazilians, the fact is that European members of IBRD are very concerned about Brazil's delay in settling old European claims, and they are reluctant to see large new credits granted before the Brazilians show a reasonable willingness to undertake negotiations on these old debts.

8. Without prior commitment as to a total amount, the IBRD is prepared to do its utmost in financing Brazilian railroads on the basis of sound loans. Aside from investigation of the technical merits of individual projects, the Bank feels that the necessary conditions are:

a) Passage of the railroad reorganization bill.

b) A survey report by consultants acceptable to the IBRD and to the Brazilians (IBRD would pay ½ the cost).

c) Managerial reforms to complement any equipment rehabilitation loans.

If the survey group confirmed that the railroad projects were sound, and that the Brazilians were sincerely interested in making necessary reforms, it is possible that the IBRD could go along step by step in granting loans, as it has done in Colombia. However, at the present time there are too many unfavorable factors to permit prior guarantees. The Brazilians must show some constructive results and attitudes to qualify for railroad loans.

9. Loans for railways or any other purpose must be considered in the light of the Bank's judgment as to Brazilian over-all credit worthiness and the priorities among different development fields. The Bank looks to Brazil to take adequate steps to solve the present arrears problem, and to insure future financial stability. This has a direct bearing on whether Brazil can repay development loans.

10. If the Department or the Joint Commission cannot work with the IBRD on the above basis, for political or other reasons, they are free

to seek other sources of financing. In such an event the Department should plan on finding funds to cover the entire balance of the Joint Commission's projects because the IBRD could not take only a portion of the program. This would create the risk that Brazil might be loaded with other loans in excess of its ability to pay.

732.5 MSP/2-553:Telegram

The Acting Secretary of State to the Embassy in Brazil[1]

SECRET PRIORITY WASHINGTON, February 5, 1953.

850. For Ambassador Johnson. FYI we are increasingly concerned at Brazil's delay in ratifying Military Assistance Agreement. (1) Brazil's participation of major importance to success whole Latin American program not only because of traditionally close defense ties with U.S., but also because role Brazil assumes under military plan means she will receive largest share U.S. assistance. (2) Unless existing appropriations are obligated before June 30, we have no assurance funds will be continued available for use during FY 1954. To obligate funds for program for Brazil by June 30 will require time. Defense indicates it cannot complete obligation procedure until Brazil has ratified. Even if ratification accomplished by early March, obligation by June 30 will be extremely difficult. (3) Defense anticipates that after Brazilian agreement ratified, Brazilian military will be approached with proposal for amendment to military plan under which Brazil would agree prepare additional AA battalion or battalions for hemispheric defense, for which U.S. would provide assistance. If Brazil should prove unwilling agree to accept expanded defense mission, agreement of another LA country may be sought. In either case, funds should be obligated by June 30 to assure their availability during fiscal year 1954.

Unless you perceive objection, you should discuss ratification problem with FonMin soonest, indicating reason our concern except (3) above.

Desire you discuss with General Beiderlinden[2] advisability of approach by him to Brazilian military officials in best position to further ratification. In military conversations it would be desirable to indicate U.S. prepared start deliveries equipment at earliest date after ratification, within about ninety days.

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[1] Codrafted by Mr. Jamison and Mr. Spencer; cleared with the Office of the Special Assistant to the Secretary for Mutual Security Affairs, the Office of South American Affairs, the Department of Defense, and the Department of the Army.

[2] Maj. Gen. William A. Beiderlinden, Army Member, U.S. Section, Joint Brazil–United States Military Commission.

Reference (3) above, as separate undertaking, if considered advisable, General Beiderlinden being requested by separate message to ascertain from appropriate Brazilian military authorities, without making definite U.S. commitment, whether there is prospect Brazil after ratification would agree to amendment military plan under which Brazil would prepare additional AA battalion or battalions and U.S. would provide additional assistance.

If you and General Beiderlinden concur in above procedures proceed accordingly otherwise indicate soonest your reaction.

Furnish copy this message General Beiderlinden who will receive Defense message re this subject.

MATTHEWS

832.131/2–2053: Telegram

The Secretary of State to the Embassy in Brazil

SECRET WASHINGTON, February 20, 1953—5:43 p. m.

891. Executive Board of IMF acted Feb. 19 on Brazil proposal for free market. Text of Brazil's cable to Fund describing market is contained in accompanying Department telegram.[1] Fund decision as follows:

> "1. Brazil has consulted with the Fund regarding the establishment of a free exchange market for most capital and invisible transactions, as well as for some trade items, in which the rates will fluctuate freely, according to supply and demand. The Fund approves the establishment of a free market as described in the cable of February 13 from the Superintendency of Money and Credit, the remaining transactions to be conducted in the official exchange market at fixed rates based on the parities declared to the Fund by its member countries.
>
> "2. The Fund considers that the objective should be progressively to transfer exports and imports to the free market. However, the Fund does not consider that multiple mixing ratios for exports or imports are either desirable or necessary. There might be developments in the free market rate which would justify single mixing ratios for exports and imports respectively for a temporary period. In this event, the Fund realizes that some experiment to determine the appropriate mixing ratio might be necessary and that periodic adjustments in the mixing ratio might be needed. The Fund wishes to continue in consultation with Brazil on this aspect of the system.
>
> "3. The Fund agrees that Brazil may shift exports and imports from the official to the free market without further prior consultation with the Fund. It is understood, however, that Brazil will remain in close consultation with the Fund, and that Brazil will inform the Fund promptly of such shifts, including any changes which may be made in the mixing ratios.
>
> "4. The Fund notes that Brazil intends to continue a highly restrictive import policy with a view toward restoring its reserve position and

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[1] Telegram 892, to Rio de Janeiro, dated Feb. 20, 1953 (832.131/2–2053).
The Brazilian law establishing a free exchange market became effective Feb. 21, 1953.

reducing its heavy short-term exchange obligations. The Fund further notes that measures are being undertaken to ensure a more effective coordination between the issuance of import licenses and exchange availabilities. However, the Fund calls attention to the need for more far reaching adjustments in order to bring about the prompt restoration of Brazil's balance of payments equilibrium. In this connection, the Fund wishes to stress the importance of enforcing effective monetary and credit policies, which are indispensable to ensure the success of the new exchange system.

"5. The government of Brazil is deemed to have fulfilled the requirement of consultation in accordance with Article XIV of the Fund Agreement. In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Brazil."

Embassy should note that effect of paragraph one of above Fund decision is to approve Brazilian proposal contained in accompanying Department telegram. Paragraph two of decision therefore has status of advice and does not in legal sense qualify approval contained first paragraph. Thus if Brazilians adopt three mixing ratios for exports they will not be violating the Fund decision.

Decision should first reach Brazilian authorities direct from Fund. Embassy should make certain this is case before revealing its knowledge text.

DULLES

832.10/2-2053

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] February 20, 1953.

Subject: Brazil's request for a Commercial Backlog Loan; Briefing for the Brazilian Ambassador's visit.

The Brazilian Government has applied to the Export-Import Bank for a 3-year, $350 million loan to enable Brazil to liquidate its commercial backlog owing to United States exporters. The Under Secretary, on the recommendation of Mr. Linder,[2] decided that the United States should not approve a loan in excess of $100 million. The Under Secretary added that if Brazil reacted unfavorably he would be disposed to reconsider. With the Department's concurrence, the NAC yesterday approved a $100 million loan and the Export-Import Bank is expected to pass on the Brazilian application this morning.

Upon being informed of the $100 million limit, the Ambassador requested an appointment with you.

The Brazilian Government will consider our attitude toward this request as a test of the willingness of the new administration to cooperate with Brazil in the solution of its economic problems. While this Bureau has never recommended economic grants for Latin America, I believe that a sound and adequate lending policy toward the area is vital to our ability to keep them on our side; and that this is particularly true of Brazil, our traditional and principal ally in the inter-American system. Our failure to lend adequate cooperation will create a serious risk that Brazil will become more nationalistic and less cooperative in its relations with us.

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[1] Drafted by Mr. Mann.

[2] The referenced recommendation is contained in a memorandum by Mr. Linder to the Secretary, dated Feb. 19, 1953 (832.10/2-1953).

While Brazil should institute extensive reforms, it is vital that our tactic at this time should be to lend them sound and reasonable support while at the same time urging them to recognize that their, and not just our, interests require them to carry out these reforms. We should not attempt to hold Brazil's feet to the fire and attempt to force them, by limiting our cooperation, to do things which they are not yet prepared to do.

Recommendations:

1. That you listen to the Brazilian Ambassador's exposition of his point of view and inform him that you will take this matter under immediate advisement.

2. Subsequent to the Ambassador's departure, that the Department reconsider this problem. It is ARA's position that the Department should inform the NAC that it considers an Export-Import Bank loan to Brazil of between a minimum of $200 million and a maximum of $300 million required by the national interest. The question of the limit of Brazil's ability to repay and the precise terms and conditions under which the loan will be made should be specified by the Export-Import Bank. This formula would give the Export-Import Bank the necessary latitude to negotiate an agreement which would accommodate the best interests of both countries.[3]

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[3] A note attached to the source text addressed to the Secretary, initialed by Under Secretary Smith, dated Feb. 20, 1953, reads as follows: "While I concur in the recommendations of ARA, I think that the view of Economic Affairs is the sounder one."

On Feb. 21, 1953, the Export-Import Bank authorized a line of credit in the amount of $300 million in favor of the Banco do Brasil, S. A., to assist Brazil in liquidating its past due United States dollar accounts. For additional information concerning the credit, see Export-Import Bank of Washington, *Sixteenth Semiannual Report to Congress for the Period January–June 1953* (Washington, 1953), pp. 7–8.

Secretary's Staff Meetings, lot 63 D 75

Minutes of the Secretary's Staff Meeting, Held at the Department of State, 9:30 a.m., February 24, 1953[1]

SECRET
SM N–106

[Here follow a list of those present (27) and discussion of matters unrelated to Brazil.]

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[1] The Secretary's staff meetings, held two or three times a week during the years 1952–1960, were attended by the Under Secretary of State, the Assistant Secretary of

Brazilian Export-Import Credit

5. The Secretary reported that over the weekend the President had made a decision, in which the Secretary had concurred, with regard to $300-million which the Brazilians claim the U.S. had made a moral commitment to endorse. While the Brazilian argument was not conclusive, it was believed that the U.S. should go along with the Brazilians understanding of the commitment. The Secretary noted that there had been previous contact with the new administration on this matter. The President had taken a keen interest in it and did not want to lay the new Administration open to possible charges from the Latinos of bad faith with regard to commitments made with the old Administration.

Mr. Linder said his previous reasoning had been that since our moral commitment was made with regard to a figure between 100- and 150-million the present figure of 300-million seemed to change the basis of our agreement. This request, furthermore, may be only the first of a series of such requests and acquiescence now might establish a precedent. The Secretary said that the reduction in the 300-million figure was discussed in the White House, but it was felt that the U.S. would be freer to deal with subsequent requests if the U.S. went along with commitments the Brazilians believed had already been made.

[Here follows discussion of a matter unrelated to Brazil]

State, certain members of the Executive Secretariat, and certain office directors. A broad range of policy matters was discussed at these meetings; the Secretary normally presided.

832.00 TA/4–2753:Telegram

The Ambassador in Brazil (Johnson) to the Department of State

CONFIDENTIAL RIO DE JANEIRO, April 27, 1953—8 p. m.

1501. Embassy telegram 1451, April 15.[1] I met with Foreign Minister this afternoon by arrangement to discuss question JBUSEDC termination. He told me that he has been in active consultation with President and his government colleagues on this matter for past two weeks, that he now has a draft note, which is projected as reply our note which he has in draft form (Department's instruction 77, April 2).[2] Minister said he would prefer not give me his draft this afternoon as he has one or two points yet to clear up through conversation with Ambassador Salles at Washington. He will ask me to see him later this week and will give drafted text.

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[1] In the referenced telegram, Ambassador Johnson reported that he had discussed termination of the Joint Brazil–United States Economic Development Commission with the Brazilian Foreign Minister, and that the Foreign Minister had asked him to refrain from delivering a note on the subject until he had an opportunity to review the matter with President Vargas (832.00 TA/4–1553).

[2] Not printed (832.00 TA/4–253).

Minister then began his discussion of proposed Brazilian reply by saying that he agreed with principles of our proposed note and with our reasons for proposing termination Joint Commission on June 30. He said, however, that for "purely internal political reasons" Vargas administration earnestly hopes we will accede to Brazilian request which is contained in his draft note for termination Commission December 30 instead June 30 this year, even if it is continued with greatly reduced personnel after June 30. He hopes we would agree to withhold our projected note until arrival Dr. Milton Eisenhower in Rio end of June. I replied to Minister that I will be glad transmit his draft note when I receive it, together with his views, but that I had certain personal views about matter which I would state to him quite frankly. First, in my personal opinion, it would be unfortunate delay decision on this matter until end June and that I personally did not think question of life of Commission was matter which should be brought up for discussion with Dr. Eisenhower.[3] I further pointed out to him that if life of Commission is extended on skeleton basis after June 30 until December 30, it would be bound to arouse hopes and expectations on part of public which might well be impracticable of realization; that resulting disillusionment would tend to wipe out good effects of Commission's previous achievements and might, through its effect on a disappointed public opinion, have undesirable results on our relations, which would not be to benefit of either Brazil or United States. I further pointed out that by June 30, project reports included in Commission's program will have been completed, that there is no practical possibility of any enlarged program resulting from continuation Commission for further six months, particularly as projects already completed by June 30 will be in hands of lending institutions for consideration and final determination as to financing. The Minister took my statements in good part and said he fully understands cogency of argument.

There is little doubt in my mind that Vargas administration hopes for further extensive financing from US and is therefore reluctant see technical termination Joint Commission, which provides convenient machinery for these expanded hopes. In spite of government's desperate economic situation, however, and the intense desire and need for all dollar currency they can obtain, I believe responsible members of government, including Lafer and Fontoura, realize how thin a basis they have for additional loans from US until those already received and others possible under completed program of Joint Commission, have been organized and put in process of eventual liquidation. Political weakness of administration and its difficulty in getting support for legislative and administrative programs, is also factor which would give illusion that salvation might be found in further loans.

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[3] Reference is to Dr. Eisenhower's factfinding mission to the countries of South America, undertaken as the Personal Representative of President Eisenhower between June 23 and July 29, 1953; see the editorial note, p. 196.

I am setting forth these preliminary views for Department's consideration, I have discussed matter briefly with Ambassador Bohan, who agrees with foregoing. I would prefer reserve further comment until I have had opportunity consult with Lafer as well as Neves da Fontoura again, and to have actual text Brazilian draft note.

JOHNSON

832.00 TA/5-553: Telegram

The Ambassador in Brazil (Johnson) to the Department of State

CONFIDENTIAL RIO DE JANEIRO, May 5, 1953—7 p. m.

1534. For Atwood from Bohan. In view possibility Department's taking early decision re life joint commission as suggested Deptel 1175,[1] I wish to submit my views on this important question.

As general feeling Brazilian circles joint commission should not be dissolved, it would appear we have three alternative courses of action:

1. To follow present policy that joint commission can be terminated June 30 whether agreement reached or not with Brazilians.

Disadvantages:

a. This action would undoubtedly be interpreted by public as proof new administration not interested economic cooperation with Brazil and would be popularly considered as failure US live up to commitment provide financing joint commission program. While admittedly no legal commitment re financing present joint commission program exists and even moral commitment debatable there is no question that from public relations standpoint in Brazil, US committed finance program since public officials and newspapers here have so stated for better part of two years without any denial ever having been made by US.

b. Failure provide plan for foreign financing means uncompleted program since cruzeiro financing arranged, implementing institution (Banco de Desenvolvimento) established and technical projects finished.

2. Acquiesce in desires continue joint commission until December 31.

Disadvantages:

a. Solution only remaining problem facing joint commission, i.e., foreign financing, would not be furthered but would become more acute with passage of time because of political and other pressures.

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[1] The referenced telegram, dated May 4, 1953, reads in part as follows: "Department carefully considering Brazilian request extend Joint Commission until December 30. No decision yet." (832.00 TA/4-2853)

b. Staff of joint commission with one or two exceptions cannot be held together after June 30 and manifestly impossible recruit and clear new group for this limited service.

3. Complete program joint commission by reaching agreement on foreign financing plan prior to June 30 thus removing valid substantive objections to termination that date. This, of course, would not meet present Brazilian pressure for continuance commission to December 31 for "internal political reasons."

American section finishing a financial plan which appears to be well within Brazil's capacity assume foreign debt and provides for orderly and systematic implementation joint commission program including managerial reform railways and reforms in administration of port and coastwise shipping services. This plan will be ready for submission to Department within 10 days.

This course would appear to be in best interests US since it would permit meeting Brazilian public conception US commitment, relieve US from joint responsibility implementation program during period when Brazilian Government finds it particularly difficult take sustained economic action and allow US retire from joint commission program with all flags flying.

Foregoing does not preclude our continuing lend assistance in implementation of program through railway mission or otherwise although we would prefer that US provide advisory assistance rather than assuming new joint responsibilities at this time.

JOHNSON

832.00 TA/5-653: Telegram

The Ambassador in Brazil (Johnson) to the Department of State

CONFIDENTIAL PRIORITY RIO DE JANEIRO, May 6, 1953—8 p. m.

1538. For ARA. Embtel 1501, April 27.[1] In interview this afternoon with Foreign Minister he elaborated on Brazilian Government's views regarding termination date JBUSEDC. He gave me copy draft personal letter[2] to me setting forth in detail his arguments for deferring presentation our note (Department instruction 77, April 2[2]). A copy this draft letter has been sent Brazilian Ambassador Washington, and I understand from conversation with Cottrell May 5, has been shown officers of Department.

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[1] *Ante*, p. 609.

[2] Not printed.

Minister emphasized vital importance which his government attaches to extension life of commission to end this calendar year.

From our gauge of responsible official and public opinion on this question, I am in agreement with Minister's view that termination commission June 30 would be generally misunderstood here and would have damaging effect on US-Brazilian relations.

If for reasons of policy, Department reaches decision to accede to Brazilian views, it seems to me essential that we have at same time a clear-cut and precise understanding on both sides as to what is to be expected of commission when its present program is completed by June 30 and what is to be expected from US. Scope for misunderstanding in this field could be very wide and would seem to require understanding also with lending institutions who would be expected pass on financing of approved projects. If a satisfactory mutual basis of understanding for extended life commission can be found, I think it would be in our interests meet Brazilian view regarding date of termination. Vargas administration is passing through very serious crisis at present moment, which it is generally believed will end in number cabinet changes. Until peak this crisis has been passed, elements of confusion which exist in Ministry Finance and Bank of Brazil are not likely be cleared up. As early decision as practicable on question termination date joint commission favorable to Brazilian views and with appropriate mutual understandings between US and Brazil along lines above indicated would do much stabilize political position and strengthen administration's hand.

Foreign Minister says his government is looking forward with keenest anticipation to visit Dr. Milton Eisenhower and is confident that during visit broad basis of understanding for future development our mutual interests and relations can be established.

JOHNSON

832.00 TA/5–653: Telegram

The Secretary of State to the Embassy in Brazil[1]

CONFIDENTIAL PRIORITY WASHINGTON, May 8, 1953—7:27 p. m.

1197. Department believes Joint Commission should terminate June 30. Embassy telegram 1538.[2] Ambassador instructed inform Foreign Minister and Finance Minister following Department views:

1. Continuation Joint Commission will not improve prospects finance projects. Conversations with Torres and Salles indicate

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[1] Drafted by Mr. Cottrell; cleared with Messrs. Cabot, Atwood, and Corbett.

[2] *Supra.*

Brazilians believe existence Commission will help obtain commitments from banks or shift balance program financing to Eximbank or Treasury. Should be made clear Foreign Minister neither possibility exists.

2. Past misunderstandings and present impasse are result repeated unsuccessful attempts place financing on basis advance Bank commitments, specified conditions. Also public statements have created misunderstandings regarding financial commitments. Continuation this basis would lead to further frustrations and misunderstandings detrimental entire program.

3. To break impasse and move forward constructively towards ultimate successful financing Joint Commission program new basis must be established now. It should rest on understanding that US Government, Brazilian Government and lending institutions all desire see Brazil's economic development be financed as rapidly as possible *but* within Brazil's borrowing capacity to prevent over extension credit and default. If this principle accepted then Brazil's capacity becomes key and limit to financing, not advance commitments unrelated to Brazil's financial position.

4. These criteria can be determined by IBRD in close cooperation and study with Brazilian economists of National Development Bank. To accomplish this purpose IBRD willing establish representative Rio and work closely on financial aspects.

5. Should be understood that if Brazil's credit deteriorates for whatever cause, loaning progress will slow accordingly. If credit improves loan rate should accelerate.

6. IBRD and Development Bank staff studies will reveal what measures can be taken to improve Brazil's credit and these will provide guide to constructive action.

7. Embassy telegram 1534[3] describing financing plan being developed American Section Commission indicates prior bank commitments implicit. Since these cannot be obtained Department recommends this plan be submitted IBRD not for purpose exacting commitment but for its staff use in proceeding according above outlined plan.

8. Department appreciates possible internal political repercussions and possible attacks upon US as result terminating Commission. However Department believes extent these developments will depend largely upon how termination is presented to Brazilian public and officials. If no effort made place constructive view on above plan reaction could be severe. If intelligent sincere effort made by Brazilians and Embassy to present new plan in favorable light and early publicity initiative taken to forestall critics then repercussions could be minimized.

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[3] Dated May 5, 1953, p. 611.

9. Embassy instructed prepare and release appropriate publicity through most effective Brazilian and/or US channels in cooperation and with Brazilian consent to achieve above purpose. Department suggests general guidance announcing termination should be Joint Commission was established assist Brazil its long range economic planning program. Commission program developed three main functions: (a) Preparation projects by Joint Commission. Now completed; (b) Presentation projects for financing. $122 million already granted. Balance to be financed due course through IBRD basis soundness individual projects and Brazil's capacity absorb external debt. This will be facilitated through close cooperation National Development Bank and IBRD local representative; (c) Execution projects. Main responsibility rests recipient loans. Assistance by bank staffs. US help through technical assistance provided through Technical Assistance Agreement 1950.[4]

10. Department realizes above plan does not meet Brazilian desire for commitment early financing all projects accordance any agreed plan or timetable. Such desire simply impossible achieve. Plan does provide sound basis ultimate success program if Brazilians will cooperate.

11. President Eisenhower May 7 received Peixotos,[5] Salles, Cabot. Salles left memo[6] suggesting repayments recent $300 million Eximbank loan be used for financing Joint Commission program. No discussion this suggestion at this meeting.

12. May 8 meeting Department[7] included Salles, Torres, Carvalho,[8] Bernardes,[9] Cabot, Atwood, Cottrell. Department views discussed in detail. Brazilians also informed not possible change terms short term $300 million loan for specific purpose into long term development loans.

13. Brazilians somewhat disappointed but appeared to agree it would be more embarrassing for them as well as us to terminate Commission

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[4] For text of the exchange of notes, signed at Rio de Janeiro, Oct. 21 and Dec. 19, 1950, and entered into force on the latter date, constituting an agreement between the United States and Brazil relating to technical cooperation, see 2 UST 851.

[5] Amaral Peixoto, Brazilian Governor of the State of Rio de Janeiro, and Señora Peixoto (née Alzira Vargas, daughter of President Vargas). A memorandum of the conversation between President Eisenhower and the Peixotos, drafted by Mr. Cabot, dated May 7, 1953, is in file 832.2546/5–753. Ambassador Moreira Salles was not present during the conversation.

[6] An undated memorandum fitting the description was left with President Eisenhower by Governor Peixoto; it is attached to the memorandum of conversation, dated May 7, but not printed.

[7] No memorandum of conversation at the referenced meeting was found in Department of State files.

[8] Sylvio Ribeiro de Carvalho, Counselor of the Brazilian Embassy.

[9] Carlos Alfredo Bernardes, First Secretary, Brazilian Embassy.

on December 31 than on June 30. Discussion showed that real Brazilian concern is to assure orderly financing of entire program and their misgivings regarding attitude of IBRD. Salles will report meeting to Foreign Office.

14. If Brazilians unwilling agree proposed exchange notes terminating Commission on June 30 after discussion above plan Department plan modify draft note sent enclosure Department Instruction No. 77 by substituting following language as penultimate paragraph[10] "It will be appreciated if Your Excellency's Government will regard this note as an expression of the intent of my Government to terminate its participation in the Joint Brazil–United States Economic Development Commission on June 30, 1953." Department hopes Brazilians will accept original note and latter procedure will not be necessary.

DULLES

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[10] Department Instruction No. 77 is not printed. The referenced paragraph of the draft note reads as follows: "This note, and Your Excellency's reply indicating approval of the work accomplished by the Commission and of the proposals set forth above, will be regarded by my Government as a cordial agreement to terminate the Joint Brazil–United States Economic Development Commission on June 30, 1953." (832.00 TA/4–253)

832.00 TA/5–2053

The United States Commissioner on the Joint Brazil–United States Economic Development Commission (Bohan) to the Department of State

CONFIDENTIAL RIO DE JANEIRO, May 20, 1953.
No. 1735

Subject: Termination of Joint Commission

The receipt of the Department's telegram 1197 of May 8, 1953[1] brought an end to a period of uncertainty dating back to the first days of October 1952. In one sense, the receipt of specific policy directives was a welcome development, in another, a deep disappointment.

All members of the American Section of the Joint Commission will scrupulously observe the policy directives laid down and do whatever is in their power to present the new policy in the best possible light to the Brazilian Government and public. A good case can be made for the Joint Commission. Rarely has a cooperative international effort achieved such concrete results in so short a period. The Commission, in just under two years, has laid out a program amounting to an equivalency of over U.S. $1 billion, assured a noninflationary financing of the entire cruzeiro costs of the program and obtained, or is in the final stages of obtaining, almost 50% of the foreign currency requirements. In addition, an institution (National Bank for Economic Development) has been set up for the express purpose of implementing the Joint Commission program.

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[1] *Supra.*

This would seem to be record enough. It certainly deserves a rating of very good, just a fraction under excellent. Why, then, are we disappointed? Simply because that fractional difference is the difference between failure and success, certainly in the political sense and perhaps also in the economic sense.

Looking back over the last two years it is easy to see the mistakes that have been made. One of the worst was the very limited area in the United States Government to which responsibility for and knowledge of the Joint Commission was restricted. By January 1953 there was no one in the Department with a personal knowledge of the events leading up to the establishment of the Joint Commission or of its first year of operations. This explains, in part at least, why the true nature of the Joint Commission began to be lost sight of, for the Commission was the heart of a political not an economic program. It was designed to play the major role in an effort to recapture the spirit of mutual confidence which from the days of Elihu Root and the Baron of Rio Branco down to the death of Franklin D. Roosevelt had characterized Brazilian-American relations.

Before the connotations of the word "political" affect the reputation of the Joint Commission, let me hasten to add that the Commission is quite prepared to show that its program is economically sound and within Brazil's ability to assume foreign debt as well as to repay it without either undue strain on its resources or its friendship with the United States. The point I wish to make is that the objective was political—only the implementation was economic. Improving the balance of payments or bettering the managerial practices on Brazilian railroads, for example, were problems, not objectives.

Once it is granted that the program was political, then the selection of the International Bank as the sole source of financing (with specified exceptions) can be seen to have been a major error since it delegated authority over implementation of a bilateral political program to an international banking institution which quite rightly prides itself on its independence and resistance to the individual political interests of its members. By June of 1952 those concerned with the program were becoming fully aware of the gravity of the mistake that had been made and this awareness was not based entirely on the political considerations I have described, but also stemmed from the growing ill will shown towards the Bank in Brazil.

This ill will, bitterness is perhaps a better term, is a fact that must be taken into account not merely in the relations of Brazil and the IBRD but also in the relations of Brazil and the United States. As no presently useful purpose would be served by attempting to allocate responsibility for this unfortunate situation, I will only observe that, on the one hand, the importance of the "jeito" in getting along in Brazil was not recognized; and on the other hand, if Brazil had deliberately started out to sabotage its own credit record abroad and to dissipate the really extraordinary fund of good will it had built up in United States business and Government circles, it could not have succeeded in doing half as good a job as its economic bungling has accomplished in the last two years.

In fact, Brazil committed so many sins in the economic field that a great many of its former friends turned against it. This easy way of escaping responsibility was denied the American Section of the Joint Commission which had to keep its sights trained on the political objective of its program and do what it could to repair the damage done in the economic sector, as witness the role it played in finding a solution for the remittance problem and influencing the Minister of Finance to work out a plan for the liquidation of the commercial backlog.

Comparatively successful in its efforts to patch up the damage done to its program by extraneous developments in Brazil, the American Section failed conspicuously in its efforts in Washington to bring its program back into political focus and to obtain acceptance of the fact that serious as were the short-term effects of the mistakes which had been made by the Brazilian Government, nothing more than superficial damage had been done to the Brazilian economy.

Between my return from Washington on April 5, 1953 and departure for Quitandinha on April 8, the situation was reviewed with Ladd[2] and Glaessner.[3] Out of those conversations came a determination to make a last attempt to find a solution for the impasse in which we then found ourselves, it having been agreed that the following considerations would have to be kept in mind if we were to find a wise solution.

1. Consideration of the problem within the narrow confines of what the IBRD would and would not do would be expanded to the broader area of U.S. political and economic interests in Brazil. Even so, the commitment prejudices of IBRD would be given full weight.

2. Particular stress would be laid on the economic soundness of any solution since our insistence that the program's long-term objectives took precedence over Brazil's short-term mistakes had led to a certain confusion in Washington. While the Joint Commission had nothing to

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[2] William C. Ladd, Deputy Commissioner, U.S. Section, Joint Brazil–United States Economic Development Commission.

[3] Philip J. W. Glaessner, Chairman and Chief Economist, Economic Subcommission, U.S. Section, Joint Brazil–United States Economic Development Commission.

apologize for as concerns its economic approach (legislation for noninflationary financing, creation of the Development Bank, and reorganization of railway management all trace their origin to the Joint Commission), nevertheless, it should be prepared to have its proposals judged in the light of commercial rather than sound economic development banking practices.

3. The debatable question as to whether or not the U.S. has a moral commitment to finance the program would be excluded, but the fact that the Brazilian public believes such a commitment exists would be given full weight. Two factors influenced our decision in this instance. The first, that an acceptable way to meet that belief could be found without the need for any banking commitments; the second, that failure to meet it laid the U.S. open not only to the widespread belief that it had failed to live up to its obligations, but would make it the whipping boy for any failures in program implementation. The cynical observation that this is the traditional role of the U.S. is not entirely pertinent since failure to include a foreign currency financial plan in the Joint Commission program leaves that program with only three of the four legs which correspond to it (cruzeiro financing, projects, implementing institution).

4. Any considerable delays in the orderly and systematic implementation of the program increases the danger of diversion of Lafer Plan funds, affects the currency of projects (the railway projects, for example, are based on railway needs today, not last year or next year), and promotes the general unwinding of the entire correlated program. Such consequences, if no financial plan is advanced, can and undoubtedly will be blamed on the United States, but as these delays may well result from failure on the part of the Brazilian Government to carry out such measures as prompt managerial reform of railways, the U.S. should, in such a case, be in a position to escape joint responsibility for the results of such delays.

Even though a great deal of work had been done, particularly in the field of the balance of payments, we were not quite ready when events forced us to send our telegram 1538 of May 5 [*6*], 1953.[4] Incidentally, the Department was in error in concluding that our plan necessarily called for prior bank commitments (point 7, Department's 1197). It would only have called for a policy decision on the part of the U.S. Government. In broad outlines the last project of the Joint Commission would have made specific recommendations to the Brazilian and U.S. Governments which, upon acceptance, would have constituted an inter-governmental commitment. Details: Brazil to a) Ask urgency for railroad legislation; b) Create Executive Board for Railway Rehabilitation composed of from five to seven outstanding Brazilians to act prior to passage of reform legislation; c) Contract Foreign Railway Mission; d) Appoint Executive Board composed of outstanding executives to specific railways to start improving operations at once; e) Institute port administrative reforms; f) Merge the Lloyd Brasileiro and Costeira coastwise shipping services. The U.S. would only have been committed to lend its good offices to secure the necessary foreign currency financing as the measures recommended to Brazil were taken and in planned relation to total Brazilian foreign debt outstandings. A debt ceiling would, of course, have been recommended. The situation would then have worked out about as follows:

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[4] *Ante*, p. 612.

ESTIMATED DEBT SERVICE IN ALL CURRENCIES ON BRAZIL'S EXTERNAL DEBT, ASSUMING FULL FINANCING OF JOINT COMMISSION PROGRAM BY THE END OF 1955

(in millions of dollars)

Year	*Service on debt other than backlog loan* *	*Service on $300 million backlog loan*	*Service on rest of JC project loans*†	*Total estimated debt service*
1954	77.5	107.7	4.4	189.6
1955	78.6	104.2	9.4	190.2
1956	77.9	67.6	13.3	158.8
1957	62.3		19.4	81.7
1958	56.9		20.1	77.0
1959	51.2		21.3	72.5
1960	44.6		21.3	65.9
1961	39.0		21.3	60.3
1962	36.2		21.3	57.5

According to our preliminary calculations, total Brazilian external indebtedness, which stood at 597.5 million dollars at the end of 1951, before the granting of any Joint Commission loans, will reach 942.8 million at the end of 1953 (including Exim backlog loan and $50 million IBRD loans now under negotiation). This exceeds by 45.3 millions the debt ceiling indirectly approved by the IBRD in 1951 (597.5 plus 300). If the rest of the Joint Commission program were entirely financed during 1954 and 1955, total outstandings at end of 1955 would be 862.2 millions and at end of 1957, 627.8 millions, or only 30.3 million more than at start of Joint Commission. This is, of course, based on the assumptions that the backlog and other obligations are met as scheduled and has the drawbacks inherent in any over-simplification of a problem. Nevertheless, it does show that a financial program could be laid out that stays within the limits fixed in 1951, adds virtually nothing to the service burden on the balance of payments during the next three years when heavy repayments of short-term debt are called for and implies a very small net increase in service payment and debt total over the long run.

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* Including portfolio debt, suppliers' creditors and Eximbank and International Bank loans outstanding, including J. C. loans granted up to now as well as a further $50 million in J. C. loans presently under negotiation. [Footnote in the source text.]

† Assuming all J.C. project loans granted by 1955. [Footnote in the source text.]

This report is, of course, too late to be of any value to the Department in making its final decisions. However, the American Section did not want the record to give the impression that we had at any time failed to give balanced consideration to both the political and economic aspects of our Mission as we saw them and judged them.

Forgive me if I end on a personal note. I had come to think of the Joint Commission program as proof that statesmanship was still a factor in our relationships with Latin America and if at times I have become impatient with those who have seen that program only as another Point 4 project, this may help explain my attitude. An attitude also influenced by the ghost of another experiment, the Bolivian development plan of 1942.[5] I sometimes wonder if the United States had not listened to all the sound advice it received to justify postponement of the implementation of that program if things would have come to their present pass. At least, the Bolivians would have had the exciting attraction of a growing and diversified internal economy to distract them from the hopeless contemplation of their economic miseries. The two cases, of course, are not entirely parallel, although time may show that the lessons were.

MERWIN L. BOHAN

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[5] For documentation on this subject, see *Foreign Relations*, 1942, vol. v, pp. 592 ff.

732.5/6–153

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Under Secretary of State (Smith)[1]

CONFIDENTIAL [WASHINGTON,] June 1, 1953.

Subject: Agreement with Brazil to Terminate the Joint Brazil–United States Economic Development Commission.

Discussion:

1. Since last year the target date for termination of the Commission has been June 30, 1953. This date was approved by President Vargas. However, last Friday Embassy telegrams 1622 and 1623[2] reported a change of mind on the part of the President. He now believes it politically impossible for him to agree to termination on June 30 and insists that an understanding (commitment) be reached on the financing of the balance of the projects.

2. The reason for this change of heart is that he fears that the termination of the Commission will provoke a debate in Congress about how the balance of the projects will be financed, and thereby embarrass the Administration, which is already under heavy criticism from its opponents on many issues.

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[1] Drafted by Mr. Cottrell; a note attached to the source text, dated June 2, 1953, indicates that the Under Secretary saw this memorandum.

[2] The referenced telegrams, dated May 29, 1953, are not printed (832.00 TA/5–2953).

3. The Administration has led the Brazilian Congress and public to believe that the United States, the Eximbank and the IBRD are firmly committed to provide the foreign financing needed for this entire program. If the debate following the termination of the Commission reveals that there is no such definite commitment, the Administration will be very vulnerable for having created a National Development Bank and imposed taxes to provide the Cruzeiro financing.

4. The Department desires a voluntary agreement with Brazil to close out the Commission, rather than terminating it unilaterally. Since President Vargas now feels strongly that he cannot agree to close on June 30, the Department has proposed an extension until August 31 or September 30 provided that the Brazilians will agree now to close on either of those dates. Our Chargé d'Affaires, Walter N. Walmsley, thinks it might be possible to reach an agreement on this basis and is proposing it to the Foreign Office today, maintaining the attitude that this proposal is not relevant to the question of further financing.[3]

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[3] In telegram 1739, from Rio de Janeiro, dated June 19, 1953, Chargé Walmsley informed the Department that Brazilian Finance Minister Oswaldo Aranha agreed to the closing of the Joint Commission after completion of its substantive work on or about July 31, 1953, that he did not believe prior financing commitments existed, and that he preferred a simple announcement rather than an exchange of notes terminating the commission (832.00 TA/6–1953).

In telegram 1368, to Rio de Janeiro, dated June 23, 1953, the Department indicated that in view of Finance Minister Aranha's position, it would not insist on an early exchange of notes terminating the commission, but believed that notes should be exchanged at some appropriate future time (832.00 TA/6–1953).

Secretary's Letters, lot 56 D 459

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Secretary of State[1]

[WASHINGTON,] June 25, 1953.

Problem

To obtain the introduction in the Congress of the necessary legislation to permit the sale and transfer to Brazil of up to 12 coastwise vessels.

Background

It will be noted that the attached letters[2] to the Vice President[3] and the Speaker of the House of Representatives[4] refer solely to Brazil's economic need for coastal vessels, and to the United States national interest.

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[1] Drafted by Gerald W. Russell of the Office of Regional American Affairs; concurred in by the Office of the Assistant Secretary of State for Congressional Relations, the Office of Transport and Communication Policy, and the Offices of Regional American Affairs and South American Affairs.

[2] Not printed.

[3] Richard M. Nixon.

[4] Joseph W. Martin, Jr. (R.–Mass.)

The Department on October 23, 1952 addressed a communication to the Brazilian Ambassador outlining a four point proposal designed to solve our outstanding shipping problems with Brazil. This proposal involves: (1) Brazil to improve port conditions to save shipping companies and importers millions of dollars annually, (2) Brazil to eliminate certain discriminations, (3) United States to allow waivers permitting Brazilian ships to carry up to 50 percent of the Export-Import Bank loan cargo, and (4) the Department to seek legislation to permit the sale of coastal vessels from the reserve fleet.[5] On March 2, 1953 the Brazilian Ambassador advised the Department of the Brazilian Government's acceptance of the proposal. The Brazilians have suspended the discriminations by administrative action and are seeking legislation to eliminate them from their statutes. They are also making progress in the matter of port improvements. The United States has granted the waivers and the next step is for the Department to seek the subject legislation to permit the sale of coastwise vessels to Brazil. The United States shipping lines operating to Brazil have agreed to support such legislation, and the CIO Maritime Union will not object to this legislation. Heretofore, since the termination in 1948 of authority for the sale of the war built vessels to non-citizens, both industry and unions have consistently opposed any efforts to obtain legislative authorization to sell such vessels to foreign countries.

Recommendation

It is recommended that you sign the attached letters[6] to the Vice President of the United States and to the Speaker of the House of Representatives in order that the first step toward the introduction of this legislation may be accomplished.

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[5] In a memorandum to the Secretary, dated Oct. 10, 1952, Mr. Linder stated that E could not endorse ARA's overall shipping proposal with respect to Brazil because the Bureau was opposed to legislation that would reward Brazil for discriminating against U.S. ships, grant special treatment to a single country in view of the Department's assurances to other countries that their shipping needs would be considered in new legislation, and committing the incoming administration to "a type of legislation which had proved extremely unpopular with the Congress in the past." (Miller files, lot 53 D 26, "Brazil")

[6] The letters were signed by the Secretary and sent under date of July 1, 1953; they are not printed.

Editorial Note

Senate bill 2370, authorizing the sale of certain vessels to Brazil for use in the Brazilian coastwise shipping trade, was introduced on July 13, 1953; companion bill 6317 was introduced in the House of Representatives on July 15, 1953. For text of statements made before the House Merchant Marine and Fisheries Committee in support of the bills by Assistant Secretary Woodward and Officer in Charge of Transportation and Communications Policy Charles P. Nolan on March 24 and June 8, 1954, respectively, see Department of State *Bulletin*, April 5, 1954, pages 533–534, and *ibid.*, June 21, 1954, pages 951–953. Senate bill 2370 became Public Law 496, approved July 15, 1954; for text, see 68 Stat. 481.

732.5 MSP/7–1653: Telegram

The Chargé in Brazil (Walmsley) to the Department of State

CONFIDENTIAL PRIORITY RIO DE JANEIRO, July 16, 1953—5 p. m.

57. For State and DMS. Reference Depcirtel 1237,[1] Embdes 1521, April 9[2] *et ante*. Military assistance agreement approved by Brazilian Congress in April marking long awaited step forward military phase MSP Brazil. Although Brazilian promulgation completed only mid June, US and Brazilian military groups had anticipated planning phases, designating Brazilian units for hemisphere defense, and making plans for their supply. Likewise, US delegation JBUSMC, anticipating establishment MAAG, took initiative activating program and arranging initial transfer grant-aid material, five B–17's, June 18, four days after Brazilian promulgation agreement. Delivery these aircraft created favorable Brazilian impression. MAAG now established.

JBUSEDC in final stages work on forty priority projects in transportation, power, shipping, agriculture. These projects estimated require 13.2 billion cruzeiros internal financing and $381 million external, of which $135.4 million now obtained and $48.6 million in negotiation. Projects would provide essential additions to economic infrastructure and should result stimulus to private investment. US assistance indispensable in preparing above projects. Difficulties arose however, with regard termination Joint Commission. Unfavorable Brazilian reaction to US request attributable mainly to fact completion external financing does not coincide with prospect of Joint Commission termination and Brazilian press and congressional critics made it appear US giving new interpretation to alleged understanding re relationship cruzeiro and dollar financing. Although political controversy is continuing in Congress regarding 1951 Brazilian legislation to provide cruzeiro financing, I have reached agreement with new Foreign Minister[3] and Finance Minister installed recent weeks to exchange notes July 20 to close Joint Commission when work finished but not later than

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[1] The Department's circular telegram 1237, dated June 29, 1953, requested reports from the Embassies concerning progress being made toward achieving the objectives of the military security program (700.5 MSA/6–2953).

[2] The referenced despatch, from Rio de Janeiro, dated Apr. 9, 1953, contained a summary report on the progress of the mutual security program in Brazil for the quarter ending Mar. 31, 1953 (732.5 MSP/4–953).

[3] Vicente Ráo.

September 30.[4] With regard technical cooperation following critique designed assist your appraisal impact and provide new DTC guidance re local problems.

Scope of technical cooperation activities in Brazil increased with beginning full-scale operations under productivity program and new public administration projects. Industrial education program, previously impaired by inadequate cooperation by certain Brazilian officials, now in position resume. We have concluded new agreements with Foreign Office, Minister Education,[5] Minister Labor,[6] Minister Agriculture,[7] which provide continuing bases for activity in these and related fields, namely, special services agreement,[8] supplementary agreement on industrial productivity, extension of industrial education agreement,[9] and agricultural and natural resources agreement.[10]

Conclusion of these agreements received favorable though modest publicity Brazil press and Brazilian attitude toward technical cooperation continues receptive. Brazilian Government can be expected to give support and contribute its share to agreed programs. Note, however, that at April session ECLA Rio,[11] at which economic development was major topic, US technical cooperation received only barest mention in contrast frequent mention and high praise UN technical cooperation activities, fact which suggests importance of watching Latin American attitude toward our technical cooperation programs in coming months.

One possible reason here is that our more recent projects in Brazil have tended become diversified with resultant thin spread of resources this vast country. Certain projects in public administration and industrial productivity programs are pertinent illustrations.

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[4] For text of the exchange of notes, signed at Rio de Janeiro, July 20, 1953, and entered into force on the same date, by which the United States and Brazil agreed to terminate the Joint Commission on Sept. 30, 1953, see 5 UST 112.

By an exchange of notes, signed at Rio de Janeiro, Sept. 16 and 28, 1953, entered into force on the latter date, the United States and Brazil agreed to extend the life of the Joint Commission until Dec. 31, 1953, to allow the commission to complete the preparation of certain projects and the publication of its studies; for text of the notes, see 5 UST 115. The commission completed its work on Dec. 31, 1953, and was terminated as of that date.

[5] Antonio Balbino.

[6] João Belchior Marques Goulart.

[7] João Cleofas de Oliveira.

[8] For text of the special technical services agreement between the United States and Brazil, signed at Rio de Janeiro, May 30, 1953, entered into force provisionally on the same date, and definitively on Nov. 13, 1959, see TIAS No. 5049, or 13 UST 1061.

[9] For text of the exchange of notes, signed at Rio de Janeiro, June 29, 1953, and entered into force on the same date, extending the agreement of June 30, 1952, providing for an industrial apprenticeship training program, see TIAS No. 2839, or 4 UST (pt. 2) 1713.

[10] For text of the agreement providing for a cooperative program of agriculture and natural resources in Brazil, signed at Rio de Janeiro, June 26, 1953, entered into force provisionally on the same date, and definitively on May 29, 1956, see TIAS No. 4130, or 9 UST 1357.

[11] Reference is to the Fifth Session of the UN Economic Commission for Latin America, held at Quitandinha, Brazil, Apr. 9–25, 1953; for information on the session, see *Yearbook of the United Nations, 1953* (New York, 1954), pp. 377–382.

Also emphasized in our previous telegrams (Embtel 1124, February 10[12] and 980, January 10[13]) programs of maximum effectiveness generally possible only when strongly desired and supported to our satisfaction by Brazilians. Promotion of projects by us unrewarding.

I am also concerned with apparent bureaucratization of technical cooperation in Brazil resulting from increased proportion professional civil servants assigned to projects rather than outstanding specialists who have demonstrated proficiency in private pursuits. There appears moreover, to be concentration personnel Rio of approximately 30 US officials, and only 23 elsewhere Brazil, and purposeful but wasteful build-up of technical cooperation administrative staff (30 people) owing differences in administrative procedures and accounting between TCA and Embassy which thus stopped from giving administrative support. UN agencies in Brazil also increasing personnel which now totals 61 active in matters relating to technical cooperation, mainly in Rio.

In summary, I continue feel and wish emphasize that technical cooperation for Brazil desirable and positive element in US–Brazil relations. Most programs, particularly those which predate technical cooperation legislation (agriculture, public health and minerals) are especially effective and well organized. I am not yet sure some of more recent projects which now take substantial portion of funds will prove equally effective in technical accomplishments or contribution to US objectives.

WALMSLEY

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[12] The referenced telegram concerns the effect on the mutual security program of Brazil's delay in ratifying the military assistance agreement (732.5 MSP/2–1053).

[13] Not printed.

732.00/7–2753

Memorandum by Dr. Milton Eisenhower of a Conversation With President Vargas[1]

SECRET

RIO DE JANEIRO, July 27, 1953.

At a small reception given by President and Mrs. Vargas for the members of the Mission, President Vargas asked Doctor Eisenhower to meet with him privately. At the discussion were President Vargas, his daughter Alzira (as interpreter), Minister of Foreign Affairs Rao, Minister of Finance Aranha, the President's brother-in-law, Walder Sarmanho, President of the National Development Bank, and Doctor

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[1] Dr. Eisenhower drafted this memorandum. He visited Brazil, July 22–27, 1953, as part of his factfinding mission to the countries of South America during the summer of 1953.

Eisenhower. The President explained that Brazil would take action to reduce its imports by expanding the production of wheat and developing oil resources.[2]

(The President is not well. He speaks scarcely above a whisper.) The words he used in his explanation were almost identical to those previously expressed by the Minister of Finance and the President's brother-in-law to Doctor Eisenhower. Indeed, Doctor Eisenhower gained the impression that these two individuals are essentially responsible for presidential policy in Brazil. President Vargas indicated that he would like to write personally to President Eisenhower, summarizing Brazil's economic situation and explaining the actions which the government proposed to take to develop resources and achieve a balance in international trade; he also indicated a desire to send one or two members of his official family to Washington to explain these matters. Doctor Eisenhower indicated that he was sure his brother would welcome any message President Vargas wished to send. Doctor Eisenhower then went on: (1) On a purely personal basis he could say that he had great faith in the Brazilian people and in their capacity to overcome present difficulties. (2) It must be recognized that the International and Ex-Im Bank could act only on the basis of specific projects placed before them. The latter faced a difficult situation because its loans were a charge against the annual Budget and the debt of the United States; this fact was pertinent in view of the imperative necessity of reducing total public costs in the United States. (3) Matching the frankness of President Vargas and the Minister of Finance, who had referred to oil development as a "political problem", Doctor Eisenhower indicated that it would present a political problem in the United States if Ex-Im Bank loans of substantial size were to require a recommendation for an increase in the legal debt level of the United States. (4) He urged that the misunderstandings with respect to the International Bank be overcome. The conversation ended by President Vargas indicating again that he would write in detail to President Eisenhower. (Doctor Eisenhower gained the impression that the Minister of Finance and the President's brother-in-law, who have so recently assumed new responsibilities wished to have time to formulate a total program, including action looking to a balance in international payments, which would be reassuring to the U.S. government and bank officials.)

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[2] A summary of this conversation, drafted by Charge Walmsley, based on information related to him by Dr. Eisenhower, dated July 28, 1953, reads in part as follows: "The President said that in the matter of oil the plan, owing to difficult internal political problems, would be to let the present legislation in the [Brazilian] Congress take its course, unsatisfactory as it may be. At an appropriate time in the future (it was not clear whether this was a matter of weeks, months, or years) the Government would seek through legislation an appropriate amendment of a general nature under which contracts could be negotiated with foreign companies." (Miller files, lot 53 D 26, "Brazil")

832.2546/9–1753: Airgram

The Acting Secretary of State to the Embassy in Brazil[1]

SECRET WASHINGTON, September 17, 1953.

Subject: Renewal of Procurement Contracts.

A–68. Reference is made to the procurement contracts dated December 23, 1952,[2] between the Government of Brazil and the United States of America covering monazite, rare earth compounds, and thorium compounds. In Article III of both contracts it was agreed that ninety days before expiration of the contracts, consideration would be given to determining whether further arrangements would be mutually desirable.

After a thorough canvass of government agencies, the Department finds that the Atomic Energy Commission will be prepared to discuss renewal of the thorium procurement contract; that no agency of the Government is in a position to renew the contract for rare earth compounds and monazite. There is attached a suggested note[3] to the appropriate Brazilian agency expressing these views.

The Embassy's discussion of these problems with the Brazilian officials should be limited to a discussion of renewal in terms of Article III in the current procurement contracts. However, if the Brazilians raise the question of obligation in terms of the exchange of notes of February 21, 1952,[4] the following is provided for the Embassy's information and appropriate use.

The exchange of notes of February 21, 1952, states, in the final sentence of the first paragraph, that the U.S. Government "is prepared to purchase these materials under the following conditions"; the conditions are then outlined in the seven numbered paragraphs which follow. The Department lays stress on the words "is prepared" and points out that these notes foresee, in numbered paragraph five, further negotiations to work out any firm commitment. The exchange of notes is not in itself a procurement contract; it does outline a basis on which negotiations might be conducted.

It was conceivable that the procurement negotiations might have become deadlocked and no contract developed. The exchange of notes could not, of course, represent an obligation to reach agreement on procurement details. That the negotiations might not actually follow the basis on which the two countries indicated their willingness to negotiate, was also surely a possibility. It is the Department's view, therefore, that the obligation represented by the notes is essentially an obligation to negotiate and not a firm commitment to buy or sell any specific quantities at any specific price. In fact, no mention of price is made in the notes. In other words, the notes were a good faith indication of the intention of these parties to sell and buy certain products provided agreement could be reached on details of a firm commitment. Negotiations carried out in good faith, whether or not a contract resulted and whether or not they followed the conditions which both countries indicated a willingness to accept, do, in the Department's opinion, discharge the obligation incurred by the notes.

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[1] Drafted by John B. Hamilton of the Office of the Special Assistant to the Secretary for Atomic Energy Affairs; cleared with the Office of South American Affairs, the Metals and Minerals Staff, Assistant Legal Adviser for European Affairs Raymund T. Yingling, the Atomic Energy Commission, and the Emergency Procurement Service.

[2] The referenced contracts were transmitted to the Department of State under cover of despatch 958, from Rio de Janeiro, dated Jan. 8, 1953, not printed (832.2546/1–853).

[3] Not printed.

[4] The referenced notes were transmitted to the Department of State under cover of despatch 1433, dated Mar. 3, 1952, not printed (832.2546/3–352).

This was evidently the Brazilian view at the time of the negotiations. The memorandum of September 16, 1952 (copy enclosed[5]) prepared by Mr. William Freeman,[6] who was the negotiator for EPS, describing the negotiations states "it was impossible to execute the contract for monazite and rare earth chlorides, or to execute a contract for thorium on account of the inability of the Brazilians to reach agreement among themselves in connection with the export of thorium. The United States negotiating team had made it clear when they arrived that they could only remain until the 11th of September. It was felt that all points in connection with the obligations set up in the exchange of notes of February 21, 1952, had been completely discussed and ironed out with the exception of the matter of thorium, and that the United States had done all they could in that connection . . . . In the meantime, the whole matter would be held in abeyance with the understanding that whether or not contracts were finally executed, both sides, Brazil and the United States, felt that the intent of the exchange of notes of February 21, 1952, had been completely carried out and that all obligations had been fulfilled."

That both sides, during the procurement negotiations, believed that the period and the quantities mentioned in the exchange of notes were unrealistic, is clearly brought out in the memoranda of the U.S. negotiators describing the proceedings. Thus, the memorandum of September 12, 1952,[7] from Claude Courand, representing DMPA, to the Ambassador states in paragraph three, "the Brazilians indicated that after considerable discussions they had decided that a one-year contract appeared most practicable from their standpoint."

The memorandum prepared by Mr. Freeman states, on page one, "the Brazilians stated that due to the passing of time they considered that the situation had changed materially and that they felt they would like to carry on the discussions based on the conditions presently existing rather than the conditions that existed six months to a year ago.

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[5] No attachment was found with the source text.

[6] Special Assistant to the Commissioner, Emergency Procurement Service.

[7] No copy found in Department of State files.

They indicated that their original ideas with regard to their resources were overly optimistic and that their actual possibilities of supplying the materials involved were much less than they had contemplated. They asked if we would consider commitments for one year rather than three years and quantities not in excess of those mentioned on an annual basis in the exchange of notes (of February 21, 1952)."

The record further shows that although the Brazilian producers probably would have preferred three year contracts, the Brazilian Government officials were more conservative and their views prevailed. Thus, Mr. Freeman's memorandum on page four states "the producers kept insisting that they wanted a three year contract although they apparently would not disagree with the Brazilian Government officials that to make any definite three year commitments would be completely unrealistic."

Mr. Emerson Brown's memorandum of September 12, 1952,[8] to Ambassador Johnson states, on page two, "ORQUIMA would like to have a contract for three years on the sale of thorium even at the U.S. price . . . in order to insure revenue from the sale of thorium which can not be marketed through commercial transactions."

From all of the above, it seems quite clear that at the time of the negotiations, it was the considered opinion of the official negotiators on both sides that no more than the one year contracts entered into were desirable.

It is, therefore, proper to hold that the two procurement contracts which resulted from these negotiations reflected the only kind of obligation which both sides were willing to undertake in terms of detailed, specific commitments. On the subject of further procurement, the judgment of the negotiators is brought out in Article III of both contracts which states, *inter alia*, "it is understood and agreed that ninety days prior to the expiration of this contract that the parties thereto will give consideration to circumstances then existing in order to determine if further arrangements would be mutually desirable." Obviously, this Article can not be construed as an obligation on the part of the U.S. to renew the contract. The contracts contain Article III, above referred to, and in addition state, specifically, in Article XVIII in one contract, in Article XV in the other, "this contract is entered into in accordance with the exchange of notes between the Government of the United States of America and the Government of the United States of Brazil dated February 21, 1952." It is the Department's view that such obligation as now exists in this matter is embodied in the appropriate article in the two procurement contracts.

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[8] Not printed (832.2546/9–1253)

The Department is aware that, regardless of the merits of the legal argument, if the U.S. follows in this matter a course which is opposed by influential Brazilian interests, undesirable repercussions may result in other U.S.-Brazilian interests such as the long-continuing uranium problem. Every reasonable effort should be made to avoid such repercussions. The Department and other interested agencies, however, can not attempt to arrange procurement of materials which are not now needed in order to forestall this.

SMITH

732.5 MSP/6–1553

The Acting Deputy Under Secretary of State (Murphy) to the Secretary of Defense (Wilson)[1]

SECRET [WASHINGTON,] October 12, 1953.

DEAR MR. SECRETARY: I refer to your letter of June 15, 1953[2] and to previous and subsequent correspondence between the Departments of State and Defense concerning the establishment of a new joint defense organization with Brazil. There are two problems which need to be resolved by our two Departments before diplomatic notes creating the new organization can be exchanged with the Brazilian Government, namely, the question of whether the Department of State and the Brazilian Foreign Office should be represented on the proposed board by regular membership, rather than in an advisory capacity, and the question of what name should be given to the organization.

With regard to the request of the Department of State to the Department of Defense for regular membership, the enclosure to your letter of June 15, 1953 contains a recommendation by the Joint Chiefs of Staff that this request be placed on the agenda for the first meeting of the organization as a proposal of the Department of State. In my opinion, it would be preferable for the proposal to be presented to Brazil as a United States Government recommendation having the support of both of our Departments. I am sure that membership of the Department of State and the Brazilian Foreign Office on the board would serve to promote the military, as well as the political, interests of the United States. The substance and form of many of the military arrangements developed in the new board will require careful consideration by the Department of State and the Brazilian Foreign Office with a view to determining what portions, if any, of a desired arrangement should be concluded through diplomatic channels, in the form of an international agreement, and what portions, if any, should preferably be embodied in a purely military understanding. The prolonged delay of the Brazilian Congress in ratifying the Bilateral Military Assistance Agreement testifies to the need for such close consultation with the political branch of the Brazilian Government on defense matters. Without full participation by the Department of State and the Brazilian Foreign Office, it may be difficult for the new organization to deal effectively with problems that are not confined to military matters in their narrow context but will on many occasions involve important political considerations. This is particularly true in a country as politically sensitive as Brazil.

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[1] Codrafted by Mr. Spencer and Deputy Director of the Office of British Commonwealth and Northern European Affairs Andrew B. Foster, with the assistance of Acting Chief for Staff Operations of the Executive Secretariat Robbins P. Gilman, cleared with the Bureau of Inter-American Affairs, and the Office of South American Affairs.

[2] Not printed (732.5 MSP/6–1553)

I therefore recommend that the Department of Defense approve a proposal to Brazil through diplomatic channels that full membership of the Department of State and the Brazilian Foreign Office be provided for in the diplomatic notes which are to be exchanged with Brazil for the purpose of bringing the new organization into being. I believe that the Brazilian Foreign Office and the Brazilian military authorities would favorably consider such a proposal.

There remains the question of what name should be given to the new organization. This Department has given careful study to the proposal that it be named the "Permanent Combined Board on Defense, Brazil–United States". It is the considered judgment of the Department of State that this name bears such a close resemblance to the name of the United States-Canadian board ("The Permanent Joint Board on Defense, United States–Canada") that it would be certain to arouse Canadian anxieties, hurt Canadian sensibilities, and otherwise needlessly injure our relationship with Canada. This view is also held by the United States Ambassador, the Honorable Douglas Stuart, who has given particular attention to this problem and discussed it briefly on September 25 with Admiral Arthur W. Radford, Chairman of the Joint Chiefs of Staff. Information available to the Department of State indicates that Brazilian officials do not insist on a name identical or closely paralleling that of the United States-Canadian board, do not demand the inclusion of the word "Permanent" but would be content with a title which conveys the conception that the board is a combined United States-Brazilian organization. The word "Permanent" has been one of the chief difficulties from the Canadian viewpoint. It would therefore be the hope of the Department of State that the new organization might be given a title, such as, "Brazil–United States Defense Board", or "Combined Board on Defense, Brazil–United States", or "Combined Brazil–United States Defense Board".

Finally, I should like to emphasize that the Department of State fully shares the desire of the Department of Defense to proceed as quickly as possible to establish the new board and to cooperate in supporting this new and useful instrument for the strengthening of relationships between Brazil and the United States. I therefore hope that agreement can be reached as soon as possible on Department of State representation in the new organization and the choice of an appropriate name for it.

Sincerely yours,
ROBERT MURPHY

INR–NIE files

National Intelligence Estimate[1]

WASHINGTON, December 4, 1953.

SECRET
NIE–86

PROBABLE DEVELOPMENTS IN BRAZIL[2]

THE PROBLEM

To estimate the current situation and probable developments in Brazil through 1955, with particular reference to the stability of the government and the probable development of its foreign policy.

1. The political situation in Brazil is characterized by growing social unrest and increasing nationalism. The chief factors in this situation are (a) Brazil's sustained effort to maintain a high rate of economic development with emphasis on industrialization; (b) the accompanying inflation and rapid urbanization, which have caused particular distress among urban lower income groups; and (c) Brazil's failure to obtain from the United States the amount of financial assistance to which it feels entitled. These conditions facilitate ultranationalist and Communist agitation.

2. President Vargas was elected primarily on the strength of his appeal to lower income groups, but he must enlist conservative support in order to obtain a congressional majority. So far he has pursued a middle-of-the-road course. Most conservatives distrust him, but support his administration and seek to exercise a moderating influence on it.

3. Vargas is politically committed to maintain a high rate of economic development, which can be accomplished only with substantial amounts of foreign capital. Substantial foreign private investment is precluded by the prevalent nationalistic attitude toward such investment and by the uncertain economic outlook. Some modification of Brazil's investment policy and a retrenchment program may be prerequisite to substantial foreign developmental loans. Retrenchment is politically dangerous in that its immediate effects will probably be to

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[1] A cover sheet and dissemination notice are not printed.

[2] A note on the cover sheet reads in part as follows: "The Intelligence Advisory Committee concurred in this estimate on 1 December 1953. The FBI abstained, the subject being outside of its jurisdiction."

intensify existing economic dislocations and social unrest. Vargas, however, will undertake the minimum which he considers necessary to obtain further substantial loans. He will also take political action designed to soften the economic requirements of foreign lending institutions.

4. If Vargas succeeds in obtaining such loans and in checking inflation, his political position will be reasonably secure and he will probably continue to pursue moderate policies during the remainder of his term. Otherwise he will be under increasing extremist pressures, but will probably not be threatened with expulsion from office as long as conservative elements, including the Army, are satisfied that he has done all that could be done to improve the economic situation.

5. In the event of a severe economic deterioration Vargas might be able to secure conservative support for a more nationalistic program. On the other hand, Vargas might abandon his conservative connections and seek to establish an authoritarian labor-leftist regime. In the latter case, however, the Army and the conservatives would probably depose him.

6. The Communists have no prospect of gaining control of Brazil by electoral means or by force, but their influence will probably increase through their exploitation of popular issues and their infiltration of the bureaucracy and of organized labor. Their immediate objective is the exploitation of social unrest and Brazilian nationalism to neutralize Brazil as an effective ally of the United States.

7. Brazil will almost certainly continue to support the United States on major issues between the US and the Soviet Bloc, but, if not granted the special consideration to which it feels entitled, with particular reference to further developmental loans, it may pursue an increasingly independent course in economic matters. A desire to strengthen its bargaining position vis-à-vis the United States will be an important factor in Brazilian diplomacy. Brazil will seek to establish closer economic relations in Latin America and with Europe, including efforts to increase its now negligible non-strategic trade with the Soviet Bloc. It may also re-establish diplomatic relations with the USSR.

8. Brazil will continue to oppose Argentine bids for leadership in Latin America and the development of an Argentine-led bloc.

9. In the event of general war Brazil would almost certainly enter the war actively in support of the United States.

DISCUSSION

I. *Introduction*

10. Brazil's continued cooperation with the United States is a matter of great significance. Brazil is a major power within the Latin American community and exercises considerable influence in the Organiza-

tion of American States and the United Nations. Moreover, Brazil is strategically located with respect to sea and air routes in the South Atlantic and is an important source of strategic materials, notably metallurgical manganese, quartz crystals, beryl ore, mica, and castor oil. It is the only Latin American country with known sizeable deposits of atomic energy raw materials. The Brazilian armed forces are capable of making an important contribution to Hemisphere defense.

11. Except in some areas (e.g., Sao Paulo) little progress has been made in developing Brazil's large human and material resources. The national economy continues to depend on exports of agricultural products. These exports have not been sufficient to sustain the postwar rate of economic development. The industrialization that has taken place since 1930 has been accompanied by severe inflation and by economic and social strains, especially on the rapidly growing urban middle classes and urban labor. Industrial and commercial interests have acquired greater political power, which prior to 1930 was largely held by a narrow oligarchy of landowners and Army leaders. More recently lower income urban groups have begun to exert pressure for greater representation in the government and for betterment of their lot. The frustrations which are inevitable in the process of such rapid and uneven economic development as Brazil is experiencing are exploited by nationalists and Communists. Brazil, however, has been less subject to political violence than most Latin American countries.

II. *Political Situation*

12. As in many other Latin American countries, the postwar pressures in Brazil for accelerated economic and social progress have contributed to increasing political stresses and strains. These pressures are more fundamental than the character of any particular administration as a determinant of political developments.

13. The dominant personality in the present political situation is 70-year-old Getulio Vargas, who was elected President in 1950 to serve until 1956. Vargas, a key political figure in Brazil since 1930, has been an astute opportunist. He has shrewdly manipulated one group against another and has successfully posed as the friend of the underprivileged.

14. General resentment of the Sao Paulo oligarchy's prolonged control of the federal government and the severe depression caused by the contemporary slump in coffee exports and prices enabled Vargas to seize the Presidency by force in 1930. Seven years later, with Army support, he established a quasi-fascist regime called the "New State," an ideological facade for his strong personal rule. Under the "New State" Vargas espoused cultural and economic nationalism, established federal control over the states, abolished political parties, suppressed all opposition of both the left and the right, undertook government in-

tervention and initiative in economic development, promoted industrialization, concerned himself with amelioration of the living conditions of the urban masses, and sought to mobilize and control urban labor as a political force through government-sponsored labor unions. It was during this period that the urban lower income groups began to become an important political factor.

15. In October 1945 the Brazilian Army, in response to growing opposition to totalitarianism, ousted Vargas in a peaceful coup and paved the way for the constitutional election of General Eurico Gasper Dutra to the Presidency. Dutra's administration (1946–1951) was moderate; political parties re-emerged and popular participation in politics increased. However, the conservative ruling groups failed to cope effectively with the growing economic hardships experienced by lower middle class and labor groups. Partially as a result of this failure, Vargas retained a large personal following and built up a political machine. In the 1950 presidential campaign he exploited the discontent of the lower income groups and the inept leadership of the two dominant conservative political parties and received about 49 percent of the popular vote, as compared to 30 percent for his nearest competitor.

16. Vargas returned to office with substantial popular support, particularly that of the urban proletariat. However, he has not attacked the problems confronting Brazil with the vigor and self-confidence which characterized his earlier administration. While this difference may be in some degree attributable to his more advanced age and reported ill-health, it stems more directly from the attendant circumstances reviewed below.

17. Vargas is in power at a difficult time in Brazilian history. Heavy migrations from the back country into the rapidly growing cities have brought hundreds of thousands of Brazilians into their first contact with higher standards of living, glaring inequalities, and the insecurity of urban existence. Distressed by inflation, the urban masses generally are increasingly dissatisfied with their level of living and clamorous for its improvement. At the same time middle and upper class conservatives, including Army leaders, are disturbed by the adverse prospects for maintaining a high rate of economic development and by the growth of labor-leftist and Communist strength, which threatens their dominant position in Brazilian life. Moreover, these elements are highly sensitive to any supposed denial of the international recognition to which they feel Brazil is entitled. These frustrations and tensions facilitate the incitement of an emotional nationalism. Brazilian nationalism and the economic strains brought about by overexpansion have in recent years imposed considerable limitations upon foreign private investment and upon Brazil's ability to obtain development loans from the International Bank, which in turn has seriously impeded

the achievement of either the social benefits demanded by leftist elements or the economic development desired by conservatives.

18. The absence of well-organized and responsible national political parties makes it difficult for the government to align stable support for political and economic programs. Brazilian politics has traditionally been based on regional rather than national interests, and on personalities rather than principles. The parties which have emerged since 1945 have begun to espouse political and economic principles and national programs, but regional and personal interests still predominate.

19. To obtain a majority in Congress Vargas must secure the support of conservatives who opposed his presidential candidacy. He personally controls the Brazilian Labor Party and is also supported by the Social Progressive Party, but these two Parties together hold only 19 percent of the seats in the Senate and 27 percent of those in the Chamber of Deputies. For even a nominal majority Vargas is dependent on the mainly conservative Social Democratic Party, which opposed his candidacy but generally supports his administration. The representatives of these three Parties constitute 67 percent of the Senate and 63 percent of the Chamber. Even so, party discipline is so lax that, to obtain majorities for specific measures, Vargas must often secure the additional support of members of the mainly conservative National Democratic Union, the nominal opposition. Thus Vargas cannot present a coherent, well-defined legislative program, but must seek major legislation piecemeal, through shifting *ad hoc* parliamentary combinations.

20. Most conservatives distrust Vargas because of his opportunism. They have been concerned about his apparent indifference to Communism, his labor-leftist backing, and the indecisive character of his economic policies. While a number have remained in opposition, many others have decided to support and if possible dominate the administration. However, conflicting vested interests have thus far prevented the conservatives from agreeing among themselves on legislation to alleviate Brazil's economic problems. The June 1953 appointment of Oswaldo Aranha, one of Brazil's most prominent conservatives, as Minister of Finance has tended to mitigate the differences among the conservatives and between them and Vargas. Aranha has become the dominant figure in the Vargas cabinet.

21. Vargas' necessary concessions to conservatives antagonize his lower income group supporters. The largest single segment of these supporters consists of the government-controlled labor organizations whose estimated 1,700,000 members constitute approximately 10 percent of the total labor force. These lower income groups, although increasingly restless, are not strong enough to provide an adequate base for political action. Recently the opportunist Minister of Labor, Joao Goulart, has made some attempts to build up a stronger, Peronist-type

labor organization. Thus far the clearly expressed opposition of conservatives and the Army, and opposition within the labor movement itself, have deterred Goulart from carrying any plans of this nature to fruition. However, his collaboration with Communists to further his objectives has enabled them to increase their influence.

22. The Brazilian Communist Party (PCB) lost strength when it was outlawed in 1947. Since 1950, however, and especially during 1953, it has made considerable progress in recruiting new members and raising funds. It is currently estimated to have 60,000 members subject to party discipline and a much larger number of sympathizers, and its strength and influence are increasing. The Communists draw their support largely from urban labor and lower middle class groups, although professional men, intellectuals, and retired military personnel are prominent in the leadership of the Party and its front organizations. Communist strength is concentrated in and around the city of Rio de Janeiro, in the important states of Sao Paulo and Minas Geraes, and in the strategic "hump" of Brazil.

23. The immediate objective of the Communists appears to be to stimulate anti-US nationalism in order to neutralize Brazil as an effective ally of the United States. They incited vigorous opposition to the ratification of the Brazilian military assistance agreement with the US. Although ultimately defeated in that case, they (in conjunction with ultranationalists) successfully promoted the enactment of legislation which excluded the participation of foreign capital in the development of Brazil's petroleum resources. More recently the Communists have concentrated on exploiting the social unrest caused by the rising cost of living and on promoting closer relations with the Soviet Bloc. On both issues they enjoy considerable non-Communist support.

24. Vargas has remained largely indifferent to Communist activities and the Communists have now begun to operate more openly in the leadership of popular movements and to renew pressure for legalization of the Party. Meanwhile a number of Communists and sympathizers have already infiltrated the government (including the Foreign Office) and the labor organizations. Despite new legislation designed to curb Communist activities, politically motivated appointments to key positions in the Federal Police have considerably weakened the enforcement capabilities of its political section. An investigation of Communism in the armed forces has discovered few Communists there, but has revealed the existence of an apparatus sufficiently well-organized to arouse concern among Brazilian military authorities.

III. *Armed Forces*

25. The armed forces, organized and trained along US lines, have an approximate strength of 194,000. The Army, with a strength of

104,000, consists of 7 infantry, 1 armored, and 4 cavalry divisions, supplemented by numerous separate combat units. The Navy, with a personnel strength of 20,000, has a combat strength of 2 light cruisers, 7 destroyers, and smaller escort, patrol, and mining craft. The Air Force, with a personnel strength of 20,000 (including 1,140 pilots), has approximately 920 combat, transport, and reconnaissance aircraft, including about half of the 60 British jet fighters ordered for delivery in 1953. In addition, there are about 50,000 militarized police available for local or regional use.

26. The operational effectiveness of the three combatant services is high by Latin American standards as a result of their reorganization, re-equipment, and operational experience with US forces in World War II and of the assistance of US military missions. Their effectiveness is impaired, however, by a lack of adequate support facilities, poor maintenance, and general obsolescence of equipment and dependence on foreign sources for resupply of material, munitions, and fuel. A severe dollar shortage and the high cost or unavailability of US military supplies have caused Brazil to turn to Europe for some aircraft and heavy military equipment, to the detriment of Hemisphere arms standardization. However, procurement from this source is also severely limited by lack of foreign exchange.

27. The Brazilian armed forces are adequate to maintain internal security and to deter aggression by any neighboring power. They could not repel a major overseas invasion without US assistance, but Brazilians do not expect any such necessity to arise. In the event of general war they could probably protect strategically important installations and facilities from extensive sabotage and from possible raids. The Brazilian Navy and Air Force have limited convoy and antisubmarine capabilities, but effective patrol of the long Brazilian coast would require the active participation of US forces. With US logistic support the Army could provide a small expeditionary force, but Brazil is presently disinclined to provide forces for service outside the Western Hemisphere.

28. The Brazilian Army has been a decisive, though normally passive, factor in Brazilian politics. (The Navy tends to remain aloof, the Air Force to follow the Army's lead in political matters.) The Army is predisposed to uphold the established government, but considers that it has an overriding responsibility for the preservation of Brazilian civic institutions and the maintenance of order. In a situation threatening prolonged civil strife the Army would be likely to give more weight to this sense of civic responsibility than to legalistic considerations. The Army's action in a given contingency would depend on its judgment as to the gravity of the threat to established institutions and the relative amount of disorder which would ensue from the alternative courses

open to it. The growth and organization of the urban proletariat tends to inhibit political action by the Army insofar as the Army would prefer to avoid action which might provoke bitter popular resistance. At the same time the Army is disturbed by this development and any precipitate attempt to mobilize the proletariat as a countervailing force might provoke the Army's immediate and decisive political intervention.

29. Most of the Army's leaders opposed the election of Vargas in 1950 because they disliked his labor-leftist backing and feared that he might again resort to a dictatorship. Nevertheless they have given his administration their passive support. The Army's leaders have been increasingly disturbed by Vargas' lack of an effective economic program and by his indifference to Communism. In 1952 they forced the resignation of a Minister of War who supported a nationalist-Communist clique in the important Military Club. However, their dissatisfaction has not reached the point at which they would either initiate or support a move to depose Vargas by force. No such movement could succeed without active Army participation.

IV. *Economic Situation*

30. Brazil has experienced rapid economic growth in the past seven years. The total production of goods and services has been increasing at an average rate of somewhat under 6 percent a year, or about 3 percent a year per capita. Funds devoted to public and private investment have greatly exceeded the amounts which Brazilians were willing to save and investment by foreigners has not come up to Brazilian expectations. Moreover, a major part of investment has gone into long-term basic industry projects and very little into improvement of agricultural and minerals production which furnished the bulk of Brazil's exports. The result has been sustained and rapid inflation and a deficit in foreign exchange transactions, which increased rapidly after the outbreak of the Korean War. The number of urban wage earners has grown rapidly under the impetus of industrialization but the level of living of this group has been declining rather than increasing.

31. The sustained inflation has been manifest in a constant rise in the cost of living, particularly among the growing urban concentrations, with a particularly sharp increase since 1950. For example, in Sao Paulo the cost of living index has risen by more than 700 percent since 1939. Wage rates have increased much less. Steady increases in the prices of foodstuffs and consumer goods have resulted in part from the increasing strains on the antiquated agricultural, transportation, and distribution systems as urban population has increased. Additional inflationary factors have been a largely unchecked credit expansion, inefficient tax collections, and unbalanced federal budgets. In the past year, however, some headway has been made in modifying these inflationary financial policies.

32. The foreign exchange deficit reflects Brazil's tendency since World War II to live beyond its income. Until recently the Brazilian Government has been willing to incur mounting foreign exchange deficits because of hopes that with foreign financial assistance economic development would soon permit a permanent solution to the country's foreign exchange problem. These hopes have been so strong that the government has given relatively little attention to increasing agricultural and mineral production for export. The sizeable foreign exchange surpluses accumulated during the war were expended within a few years. Special impetus was given to imports by rapid credit expansion and overvaluation of the cruzeiro, and, from 1950 to 1952, by liberal import licensing policies based on a fear of shortages following the outbreak of the Korean War. Until foreign exchange restrictions were imposed on January 1, 1952, private net capital outflows and large profit remittances on foreign investments at the favorable official rate added to the drain on Brazil's foreign exchange.

33. By mid-1953 Brazil's commercial indebtedness with the US and other creditors had reached $850 million, approximately two-thirds of the value of its annual exports. This situation has been somewhat relieved by a $300 million balance of payments loan from the Export-Import Bank, by loans from private banks in the US, and by arrangements with European creditors. During 1953 Brazil has been able to reduce the rate of accumulation of foreign exchange deficits by drastically cutting imports and by improving to some degree the marketability of some of its exports. These measures, however, have not been sufficient to close the gap between imports and exports. The government maintains that the current volume of imports of consumer goods and foodstuffs (20 percent of total imports) cannot be further substantially reduced. It cannot, without adversely affecting the level of economic activity, cut deeply into imports of raw materials and fuel (55 percent of imports). It has also been reluctant to cut significantly imports of capital goods, which would jeopardize the rate of growth to which economic activity has been geared in recent years.

34. The problem of Brazil's development requirements was the subject of intensive study by the Joint Brazil–US Economic Development Commission, established in July 1951. The Commission recommended a number of specific projects emphasizing the development of transportation, distribution, and power facilities. Brazilian hopes for loans from the Eximbank and the International Bank (IBRD) to finance these projects have not fully materialized. To date Brazil has obtained from these Banks a total of $130 million for specific development projects as compared with Brazilian expectations of $500 million (including $380 million for projects recommended by the Joint Commission). The effect of the $130 million in loans has been minimal in

relieving Brazil's present foreign exchange difficulties because the loans were granted for intermediate and long range developmental projects. Moreover, the foreign exchange crisis which Brazil hoped the loans would prevent had already materialized by the time they were granted.

35. The IBRD thus far has refused to meet Brazil's request for loans in addition to the $41 million now being negotiated on the ground that Brazil's present economic policies make it impracticable for Brazil to increase its financial obligations. The Bank has urged Brazil to facilitate development and exploitation of Brazilian resources, especially oil, by encouraging foreign investment and to promote fuller development of Brazil's agricultural potential. The Vargas administration has reluctantly recognized the unlikelihood of securing financial assistance of the magnitude it expected at the time the Joint Commission was created. It has also recognized that it must re-examine its present economic policies if it is to secure sizeable credits from the US and the IBRD. It has, however, hesitated to take concrete steps toward readjustment, primarily because any of the alternative courses of action involve political decisions which the government at this time would prefer to avoid making.

36. The existence of important petroleum resources in Brazil is suspected on the basis of geological indications, but has not been proved. Exploration and development of such resources might be of substantial advantage in reducing Brazil's adverse balance of trade. At present Brazil must import almost all of its petroleum requirements. Such imports now constitute 13 percent of total imports and Brazilian requirements are rapidly increasing. Present prospects for petroleum development are poor, however. Brazilian capital and technical resources available for the purpose are inadequate. The IBRD and Eximbank are unwilling to grant loans for petroleum development because adequate private foreign capital is available on reasonable terms. Meanwhile Brazilian ultranationalists, abetted by the Communists, have secured the passage of a law prohibiting the participation of foreign capital in petroleum development. In view of this law, Brazilian oil resources will not be substantially developed in the near future. In general, the prevalent nationalistic attitude regarding the exploitation of Brazil's mineral resources has deterred the participation of foreign capital in their development.

V. *Foreign Policy*

37. Brazil has traditionally regarded itself as the particular friend and ally of the United States in Latin America. With a self-confidence based on its vast extent and relative political stability, it has considered itself superior to its Spanish-speaking neighbors and the natural associate of the United States. Moreover, the United States is by far

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Brazil's most important coffee market and the only important source of needed financial and technical aid. For these reasons Brazil strongly desires the friendship and support of the United States and is highly sensitive to any US tendency not to accord Brazil special consideration and favor. At the same time Brazil is sensitive to any implication of US tutelage.

38. In recent years US-Brazilian relations have been impaired by growing Brazilian nationalism, which has produced friction in both economic and politico-military affairs. An important factor in this development has been a growing feeling in Brazil that the US undervalues Brazil's friendship and tends to take it for granted. In particular, Brazilians feel that US economic and financial assistance to Brazil has not been commensurate with Brazil's past services and present strategic importance to the US, or with Brazil's value to the US as a moderating influence in Latin America and in UN affairs.

39. Brazil cooperates closely with the US in the Organization of American States and has consistently supported the US in the UN on basic issues between the US and the Soviet Bloc. Thus far Brazil has made no move to restore diplomatic relations with the USSR, which were broken in 1947, and maintains diplomatic relations with only Poland and Czechoslovakia among the Bloc countries. Brazil's trade with the Bloc is at present negligible. There are, however, mounting official and popular pressures for closer relations with the Bloc. This idea is attractive because of Brazil's need to find new markets for its exports, and perhaps also as a means of strengthening Brazil's bargaining position vis-à-vis the US. Communists and their sympathizers are pressing it for their own ulterior purposes, with considerable nationalist support.

40. In the Latin American community Brazil has always opposed Argentine bids for leadership. At present Brazil is principally concerned regarding the efforts of the Peron regime to expand its influence in neighboring countries. It views the recent Argentine-Chilean economic treaty with disfavor as the possible forerunner of an Argentine-dominated economic bloc. Brazil has sought to counter Argentine penetration of Uruguay, Paraguay, and Bolivia, and, for its own part, has cultivated its relations with Peru, Colombia, and Venezuela. Fundamentally, however, Brazil deprecates the idea of competing blocs in Latin America and promotes instead the concept of Hemisphere solidarity.

VI. *Probable Developments*

41. Regardless of the policies pursued by Vargas during the remainder of his term, Brazil will continue to be subject to great political and economic stresses and strains. Vargas, dependent on both the right and left for support, will probably pursue a middle-of-the-road

course at least until the congressional elections in the fall of 1954. He will continue recently initiated efforts to avoid foreign exchange deficits and will attempt to control inflation. In these efforts he will probably be able to enlist the active support of influential moderate-rightist elements which are anxious to improve Brazil's international economic situation.

42. Vargas will probably succeed in establishing less inflationary government financial policies. Nevertheless, the cost of living will probably continue to rise and social unrest will probably increase among the urban lower income groups. This trend may lead to considerable popular disorder, but will probably not by itself present a serious threat to the stability of the government.

43. The nationalistic attitude prevalent with regard to the exploitation of Brazilian mineral resources will probably continue to deter foreign investments in this field. Brazil's petroleum resources will probably not be developed on a large scale. Should the result of the 1954 congressional elections strengthen Vargas' political position, he might attempt to liberalize the nationalistic petroleum law so as to attract foreign private capital. However, in view of the nationalistic emotions aroused by this issue, it is unlikely that such an attempt would succeed.

44. Vargas will continue to seek foreign developmental loans. He will undertake the minimum retrenchment which he considers necessary for that purpose, and will also take political action designed to soften the economic requirements of foreign lending institutions. If he should succeed in obtaining large development loans before the 1954 congressional elections, his political position would be greatly strengthened. A failure to obtain loans by then, however, would not greatly weaken Vargas' political position if he had adopted domestic measures which the moderate conservatives believed would alleviate Brazil's economic difficulties.

45. Vargas will probably continue to pursue a middle-of-the-road course throughout his presidential term, unless his political position is seriously weakened by the results of the 1954 elections. In the latter event, he might adopt a more nationalistic course in response to increasing extremist pressures.

46. In the event of a severe economic deterioration, conservative groups might countenance a more nationalist program if they foresee no quick end to Brazil's difficulties. It is also possible that Vargas, should he become apprehensive of a deterioration of his political position, might take extreme measures to build up mass support. Should he appeal to the masses over the heads of the Congress and the military, or should he move precipitately to consolidate organized labor as a source of political support, he would probably be removed from office

by moderate and conservative elements, including the Army, which are hostile toward dictatorship and toward labor-leftist elements.

47. Reports that Vargas is in ill-health suggest the possibility of his becoming physically or mentally incapable of coping with the strenuous problems of governing. The constitution provides that in the event of the President's death or incapacitation the Vice-President should serve the remainder of the term as President. The present Vice-President is Joao Cafe Filho. If he came to power he would probably pursue moderate policies. He would in particular avoid alienating the conservatives, including the Army, since he would probably estimate that his crucial support would come from those elements.

48. The Communists will continue to enjoy ample opportunities for agitation, in view of the continuing economic and social dislocations of the mass of the people. They will probably continue to exploit those issues which already have aroused considerable popular feeling, in particular the rising cost of living. Their association with such issues will probably enhance their influence and further their efforts to obtain legalization of the Party. Their primary objective will continue to be to stimulate anti-US feeling in order to neutralize Brazil as an effective ally of the US. The Communists will be unable to win control of the government, but their influence in official circles and popular opinion will probably increase.

49. Brazil will almost certainly continue to support the United States on major issues between the US and the Soviet Bloc, but, if not granted the special consideration to which it feels entitled, with particular reference to further developmental loans, it may pursue an increasingly independent course in economic matters. A desire to strengthen its bargaining position vis-à-vis the United States will be an important factor in Brazilian diplomacy. Brazil will seek to establish closer economic relations in Latin America and with Europe, including efforts to increase its non-strategic trade with the Soviet Bloc. It may also re-establish diplomatic relations with the USSR and other nations of the Soviet Bloc. These developments would enhance the prestige and influence of the Communists in Brazil.

50. Brazil will continue to oppose Argentine bids for the leadership of Latin America. It will oppose any Argentine political or economic penetration of neighboring countries and the development of any Argentine-dominated economic bloc in South America.

51. In the event of general war Brazil would almost certainly enter the war actively in support of the United States. Its contribution would consist primarily of making available strategic raw materials and air and naval bases, and of honoring its commitments to furnish forces for Hemisphere defense. Under pressure it might also furnish a small expeditionary force for use outside the Hemisphere.

832.053/3–354

The Deputy Administrator of the Reconstruction Finance Corporation (Robbins) to the Secretary of State

CONFIDENTIAL WASHINGTON, March 3, 1954.

DEAR MR. SECRETARY: Reference is made to our letter of September 18, 1953[1] and previous correspondence with regard to the liquidation of 60,000 shares of capital stock of the Amazon Credit Bank of Brazil held by this Corporation.

We are in receipt of Dispatch No. 727 of December 7, 1953[2] from the United States Embassy in Brazil suggesting that the Embassy be authorized to advise the Brazilian Government that the Government of the United States will accept the Brazilian offer for payment in cruzeiros of all dividends declared but unpaid, with the reservation that with respect to dividends declared after December 19, 1951 payment would be accepted in cruzeiros, with the understanding that foreign exchange might be required at a later date.

In addition, the Embassy suggests it make known to the Brazilians our desire to receive 60,000,000 cruzeiros, or the par value of the 60,000 shares of stock, in return for the transfer to the Brazilian Treasury of such stock; that both governments leave to a more favorable occasion the question as to when and at what rate the United States would arrange, through the Bank of Brazil, for the transfer at one time or in installments over a reasonable period of time the 60,000,000 cruzeiros representing the proceeds of the sale of the stock. The Embassy also stated it believes it can support the sale of the stock at 100% of its par value in cruzeiros on the basis of per-share-earnings ratio, and yields, relating to comparable Brazilian bank stocks, in particular shares of the Bank of Brazil.

There are enclosed an original and two copies of a letter[3] which we have addressed to the United States Embassy in Brazil authorizing the Embassy to proceed to negotiate with the Brazilian Government on the basis of receiving the declared but unpaid dividends in cruzeiros and sale of the stock at 100% of its par value in cruzeiros, with no reservations as to the exchange of the cruzeiros into dollar funds.

Would you please cause the original of the enclosed letter to be forwarded to the United States Embassy in Brazil, accompanied by such comments as you may care to make on this matter.[4]

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[1] Not printed (832.053/9–1853).

[2] Not printed; it discussed a possible U.S. counterproposal to the Brazilian offer of payment in cruzeiros of all dividends declared but unpaid on shares in the Amazon Credit Bank held by the RFC and acquisition of the stock by the Brazilian Government at a substantial discount (832.053/7–753).

[3] Not printed.

Sincerely, LAURENCE B. ROBBINS

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[4] In instruction 18, to Rio de Janeiro, dated Mar. 24, 1954, the Department directed Ambassador Kemper to negotiate the liquidation of the U.S. Government's shares of the Amazon Credit Bank Capital stock and accrued dividends (832.053/3–354).

In telegram 579, from Rio de Janeiro, dated Dec. 10, 1954, Ambassador Kemper stated that he had settled the Amazon Credit Bank matter. He reported, in part, that the settlement was made "on basis full payment in cruzeiros for investment U.S. stock interest and unpaid dividends. Brazil will pay 10,000,000 cruzeiros immediately and equal amounts each month thereafter until entire debts liquidated." (832.10/12–1054)

832.2311/4–154: Telegram

The Ambassador in Brazil (Kemper) to the Department of State

SECRET PRIORITY RIO DE JANEIRO, April 1, 1954—1 p. m.

754. For Secretary from Ambassador. Reference Department's telegram 684, March 31.[1]

When in Washington discussed with General Smith and others exchange of wheat for monazite and thorium which looked like good arrangement particularly because it would settle present dispute with Brazilian Government regarding US obligation under exchange of notes February 1952. Thus far Foreign Office and Finance Minister reject barter idea claiming it would open up demands from all quarters for similar arrangements. Should think New York banks would be willing finance purchase up to 300,000 tons 18 months particularly in light substantial improvement Brazilian financial position stemming largely from advance in prices coffee and cocoa. Someone in administration undoubtedly could set this up with New York banks without difficulty. Both wheat sale and settlement dispute on purchase monazite would be most helpful[2] present major negotiations with Brazilian Government on uranium.[3]

KEMPER

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[1] The referenced telegram, addressed for Ambassador Kemper from the Secretary, drafted by Mr. Atwood and cleared in substance with Mr. Waugh, reads as follows: "I am discussing alternative methods making 100 to 150 thousand tons of wheat available for cruzeiros and/or strategic materials. This should not be discussed Brazilians this time. Please don't encourage straight credit idea." (832.2311/3–3154)

[2] Telegram 686, to Rio de Janeiro, dated Apr. 1, 1954, addressed for the Ambassador, reads in part as follows:

"Department agrees important settle dispute purchase strategic materials urtel 754 but not aware possibility settlement if isolated from wheat sale contemplated arrangement discussed by you Washington." (832.2311/4–2254)

[3] In telegram 732, to Rio de Janeiro, dated Apr. 22, 1954, the Department notified the Embassy that the Office of Defense Mobilization agreed to authorize the use of its funds for the purchase of monazite and rare earth derivatives in exchange for U.S. wheat, and instructed the Embassy to inform the Brazilian Government that the United States was prepared to negotiate an appropriate contract in Washington or Rio de Janeiro (832.2311/4–2254).

State–JCS Meetings, lot 61 D 417

Memorandum on Substance of Discussions at a Department of State–Joint Chiefs of Staff Meeting, Held in the Pentagon, 11:30 a.m., April 9, 1954 [1]

TOP SECRET

[Here follow a list of those present (24) and discussion of matters relating to China.]

II

The group then discussed the defense organization with Brazil. The subject was divided up into two phases: (1) the name of the Joint Board; and (2) membership on the Board. Mr. Murphy called on Mr. Holland to present the State Department's position.

With respect to the Board's name, Mr. Holland indicated that State wanted to get away from one which was too much like the Canadian-U.S. Permanent Joint Board on Defense. He said that the State Department preferred the title: "Brazil–U.S. Defense Board" or secondly, "Combined Board on Defense, Brazil–U.S.".

Admiral Radford indicated that the title "Combined Board on Defense, Brazil–U.S." was acceptable to all three services. Mr. Murphy indicated that it was also acceptable to State. It was agreed to use that title.

Referring to the question of membership, Mr. Holland indicated that the Brazilians shared the view of the State Department that State and Brazilian Foreign Office representatives should be permanent representatives of the Board.

General Bolte drew on his experience with the Canadian-U.S. Board, and with the Mexican-U.S. Board, to indicate why he felt it was preferable that State Department and Brazilian Foreign Office representatives should not be permanent members, but rather should be invited to sit in with the Board only when matters of a political nature were included on the agenda. He emphasized that there had been no difficulty with permanent Canadian and U.S. political department representatives on the Canadian Board largely because the two countries spoke the same language, both literally and figuratively. It was different with the Mexican Board, he said. In the case of the Mexican Board, it would have been better if no political matters had been discussed and if such questions had been handled in the routine way through diplomatic channels. He attributed this conviction to the temperament of the Latin Americans as contrasted with that of the Canadians.

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[1] Admirals Radford and Carney, and General Twining were present; General Bolte attended for General Ridgway. Mr. Murphy headed the Department of State group. Representatives were also present from the National Security Council (Gleason), the Central Intelligence Agency (General Cabell), and the Department of Defense (Admiral Davis).

A note on the source text reads as follows: "(State Draft. Not cleared with any of participants.)"

Admiral Radford stated that the Chiefs had no firm position on the question, but that in view of the character of our Latin American friends he felt it was advisable to consider whether politics and military matters should be mixed below the Rio Grande.

Mr. Holland emphasized that there was no military matter which might be discussed with Latin American representatives which did not have political implications, and that therefore the Department felt it was preferable to have its own representatives permanently on the Board.

Admiral Carney inquired whether the inclusion of political representatives did not change the complexion and character of the Board, raising it above the military level. He also brought up the question of chairmanship. He referred to his experiences in Europe in negotiating status of forces agreements, etc., to his reliance on a political adviser who was not present at the military meetings but who studied the political implications of any military decisions and referred them through diplomatic channels.

Mr. Murphy expressed the view that there would be no difficulty with respect to chairmanship.

General Bolte stated that in his experience with the Canadian and the Mexican Boards there was no firm decision without State Department clearance.

Mr. Holland pointed out that in Canada when you dealt with the army you were dealing with a definitely military organization, while in Latin America when you deal with the army you are also dealing with an important political entity, and with personalities who had present or potential political importance.

General Bolte then reviewed his experience in London with General DeGaulle. He indicated that he and Admiral Stark had always dealt with General DeGaulle not as head of the Provisional French Government, but as Commander of the Free French Forces. When any political matters were brought up by General DeGaulle, and there were many, he was referred to our Embassy in London.

General Twining summed up by saying that the whole question of our defense organization with Brazil had been dragging on for some time, and that it was time to get on with it.

Mr. Murphy said that he would like to leave it with the Chiefs that the State Department favors permanent representatives on the Board along with members of the Brazilian Foreign Office.

Admiral Radford indicated that the Chiefs would think it over, and that they would have an answer for State in a week's time.[2]

[Here follows discussion of matters unrelated to Brazil.]

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[2] See the memorandum by Assistant Secretary Holland, dated May 18, 1954, p. 651.

832.00/4–1654

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Acting Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] April 16, 1954.

Subject: Proposed Joint Brazil–U.S. Economic Board

Discussion:

The Brazilian Foreign Minister spoke to the Secretary at Caracas about the possibility of forming a Joint Brazil–U.S. Economic Board, and President Vargas and the Foreign Minister have also spoken to Ambassador Kemper about this. You may recall that when the Secretary first mentioned this in his staff meeting, he thought it might be advisable to create this kind of board, but I believe he now has doubts about the wisdom of doing so.

While creation of a high-level formal Joint Economic Board with Brazil would be a significant method of fostering our important relationship with that country, such a Board would be almost certainly called upon by the Brazilians to consider further U.S. loans for economic development. Our experience with the Brazil–U.S. Joint Commission for Economic Development, which was terminated just a short while ago, bears this out. Having assisted the Brazilians in drawing up their economic development projects in bankable form, we were faced with Brazilian insistence that we assure financing for these projects. Moreover, it is also likely that the Brazilian Government, faced with Congressional elections, considers that with such a Board it could shift to the U.S. a part of its political responsibility for any delay in economic development.

Brazil now has outstanding commitments from the Eximbank and the International Bank totaling $838 million and has repaid $63 million. Even though high coffee prices have improved her dollar position, the easing of the terms on the $300 million Eximbank loan for the liquidation of commercial arrearages is under discussion. Thus, it is unlikely that either the Eximbank or the World Bank will favor further large loans to Brazil in the near future.

Recommendations:

That you authorize me to inform the Brazilian Ambassador that (1) it would *not* be desirable to establish a high-level and formal Joint Brazil–U.S. Economic Board because we cannot set a precedent under which U.S. Cabinet officers would be expected to participate on joint boards to examine the internal economic problems of foreign governments; and (2) we are prepared to carry on bilateral discussions with

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[1] Drafted by Mr. Woodward and Mr. Pearson; cleared in draft by Mr. Waugh.

Brazil prior to the Rio Economic Conference[2] concerning its problems.[3]

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[2] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, commonly referred to as the Rio Economic Conference, held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation concerning the conference, see pp. 313 ff.

[3] The source text indicates that Under Secretary Smith approved Mr. Holland's recommendation. Mr. Holland conveyed the decision to Brazilian Ambassador João Carlos Muniz at the Department on Apr. 20, 1954; a memorandum of their conversation, dated Apr. 20, drafted by Mr. Holland, is in file 832.00/4–2054.

732.5/5–1854

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Acting Secretary of State[1]

SECRET [WASHINGTON,] May 18, 1954.

Subject: Proposed Joint Defense Commission with Brazil

Discussion:

Since January 1953 there has been correspondence with the Defense Department concerning participation by the Department and the Brazilian Foreign Office on a proposed US–Brazil Defense Board. An exchange of notes establishing the new commission, which was agreed on in conversations at Rio de Janeiro in September 1952, is overdue. The exchange of notes will also give public authorization for the existing structure of US-Brazilian defense cooperation, organized on the basis of secret notes exchanged in 1942.

There has been certain Army opposition to civilian membership on the new Board. Despite the fact that our Embassy at Rio, our Army, Navy and Air representatives in Rio, and the Brazilian Government all favor civilian membership, Army opposition in the Pentagon has been sufficiently strong to persuade the JCS to a negative position. Mr. Murphy has recently presented the Department's position again to the JCS,[2] but the JCS has maintained its earlier opposition.

Civilian membership would in our view assist in the attainment of *military* objectives in Brazil. Most of our anticipated military objectives there, such as a large Army communications center and guided missile bases, involve the use of Brazilian territory by numerous American personnel and are potentially explosive political subjects. Civilian participation on the new Board would provide an alternative channel between the two governments for the handling of technical arrangements of defense character and, as has been the experience in Canada, would make it possible to expedite decisions and agreements in the political-military field and avoid delays and security problems involved in referring them to the Brazilian Congress. The Army's obstinacy regarding civilian membership ignores even Army long-range interests. See Tab A[3] for a fuller discussion of the issue.

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[1] Drafted by W. Tapley Bennett, Jr.; concurred in by Mr. Murphy.

[2] Apparent reference to Mr. Murphy's presentation of the matter to the Department of State–Joint Chiefs of Staff meeting, held at the Pentagon, May 7, 1954; a memorandum on the substance of discussion at the meeting, under date of reference, is contained in State–JCS Meetings, lot 61 D 417.

Recommendation:

That you take the matter of civilian membership to the Cabinet for decision, in view of the necessity for handling political-military relations with Brazil with full regard for Brazilian sensitivity. You may wish to mention this matter to the President beforehand. ARA will arrange for Defense to be given advance notice of our intention.[4]

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[3] Not printed.

[4] A memorandum to Mr. Holland, dated June 2, 1954, by Mr. Murphy, reads as follows:

"With reference to your memorandum of May 18 on the above subject, I have twice discussed this question with Acting Secretary of Defense Anderson, who put the question to the Joint Chiefs stating that unless the Joint Chiefs had very good and valid reasons for their position, that he would urge them to reconsider in favor of our suggestion. I understand the Joint Chiefs are meeting shortly on this question, and for that reason feel that we should await the outcome of their reconsideration before suggesting that the Secretary go to the Cabinet with this question." (732.5 MSP/5–1254). On June 4, 1954, the JCS reaffirmed to the Secretary of Defense their original position that the proposed combined board should be military in nature.

Editorial Note

Documents in Department of State file 732.56 for 1952–1954 indicate that during these years the Brazilian Government remitted to the United States three payments of $5 million each, and two payments of $500,000 each under the provisions, respectively, of the Brazilian Lend-Lease Settlement Arrangement of April 15, 1948, and Supplement No. 1, dated April 19, 1950, to the Settlement Arrangement. For text of the Settlement Arrangement, see *Foreign Relations*, 1948, volume IX, pages 383–387; the exchange of notes constituting the supplementary agreement is contained under cover of a memorandum, dated April 25, 1950, by Charles W. Kempter of the Lend-Lease and Surplus Property Staff (732.56/4–1950).

These remittances completed payment of obligations amounting to $72.144 million assumed by Brazil under lend-lease settlement terms. For text of Department of State press release 358, dated July 1, 1954, and related statements with respect to Brazil's fulfillment of its lend-lease obligations, see Department of State *Bulletin*, July 12, 1954, pages 47–48.

732.5 MSP/7–1254

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Deputy Under Secretary of State (Murphy)[1]

SECRET [WASHINGTON,] July 12, 1954.

Subject: United States Military Relations with Brazil

Discussion:

We have four serious immediate problems with Brazil in the military field.

1. The establishment of a new combined defense board with Brazil has been delayed since 1952 because of our argument with the Pentagon over Department and Foreign Office membership on the Board. The Brazilians are pressing for action and are unhappy about our delay. (Tab A)

2. The JBUSMC in Rio has proposed a $50 million equipment program for the Brazilian Army, Air Force and Navy. The Pentagon is stalling, maybe with good reason, but the Brazilians are unhappy because they thought their chances were good. (Tab B)

3. The Brazilians are very irritated about not obtaining from the U.S. a baby carrier, two submarines and four destroyer escort vessels. They threaten to reduce the size of the U.S. Naval Mission, slow down improvements of Brazilian naval bases, and cut down privileges of the U.S. naval radio facility in Recife. (Tab C)

4. The Pentagon is about ready to ask the Department to negotiate an agreement with Brazil to establish an Army 1000-acre, 500-man radio relay station in Brazil, three air bases and 75 acres for a guided missile tracking facility for the Air Force, and an extension of the Navy radio facility agreement at Recife. (Tab D)

Recommendation:

That you call Secretary Wilson, refer to his request for Secretary Dulles' views on the new Combined Board, (see Tab A), and tell him:

1) You believe the new Board should be established without further delay, and with Department and Foreign Office full membership. The new Board should immediately undertake a review of our bilateral military arrangements with Brazil, including a) the $50 million JBUSMC program, b) the latest Brazilian Navy request for fleet units and c) negotiation of the base rights and facilities needed by the Pentagon.

2) You would appreciate Secretary Wilson's reply before July 15, to inform Ambassador Muniz, who is going to Brazil and says he will be

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[1] Drafted by Mr. Cottrell.

confronted by his Government with the first three problems outlined above.[2]

[Tab A][3]

Proposed Combined Defense Board, Brazil–United States

Agreement was reached with Brazil in 1952 to establish a new Combined Defense Board, but its creation has been delayed principally because of differences with the Pentagon over State Department and Foreign Office membership on the Board. The Brazilians have made known their dissatisfaction over the long delay, and are pressing for action.

The Department believes that Foreign Office and State Department representatives should be members of the Board because some of its most important problems will have significant political ramifications, and that such membership will be invaluable in solving them. One such problem includes negotiation of extensive U.S. base rights and facilities in Brazil. The Foreign Office, the Embassy, the top U.S. military officers of the existing Joint Brazil–U.S. Military Commission, and Assistant Defense Secretary Struve Hensel concur.

The Joint Chiefs of Staff reject the Department and Foreign Office membership on the grounds that it "would alter the concept of the Board to that of a Government-to-Government body, thus opening the way to include political and economic matters as well as setting an unwanted precedent . . ." Since certain military issues have now reached the position where they threaten the harmony of our political relations with Brazil, the JCS view appears unrealistic and potentially dangerous.

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[2] The source text contains no indication of Deputy Under Secretary Murphy's action on Assistant Secretary Holland's recommendation.

A letter to Deputy Secretary of Defense Anderson by Deputy Under Secretary Murphy, dated Aug. 3, 1954, reads in part as follows.

"I refer to our conversation on July 21 at which time you confirmed the agreement of the Department of Defense that representatives of the Department of State and the Brazilian Foreign Office should be included as members of the proposed Combined Board on Defense, Brazil–United States.

"Now that agreement has been reached, I suggest we proceed at once to effect an exchange of notes with Brazil to establish the Board." (732.5/8–354)

In a letter dated Sept. 3, 1954, Acting Secretary of Defense Anderson informed Deputy Under Secretary of State Murphy that he and the JCS had considered the draft note to the Brazilian Government regarding the Combined Board and the draft statement of objectives, functions, and procedures of the joint military agencies received under cover of Mr. Murphy's letter of Aug. 3. The Acting Secretary of Defense transmitted a memorandum by the JCS to the Secretary of Defense dated Sept. 1, 1954, in which they recommended that the statement of objectives be referred to the Combined Board and suggested a change in the draft note. Acting Secretary Anderson expressed concurrence with the JCS views and recommendations. (JCS files, 092.2-Brazil)

A copy of the note delivered to the Brazilian Foreign Office on Sept. 16, 1954, proposing the establishment of a Combined Board on Defense, Brazil–United States (CBD–BUS), was transmitted to the Department of State under cover of despatch 301, dated Sept. 17, 1954, not printed (732.5/9–1754).

[3] This and the three following annexes were presumably drafted by Mr. Cottrell.

Assistant Secetary of Defense Hensel agrees with our view and has suggested to Secretary Wilson that he discuss the problem with Admiral Radford rather than overrule the JCS at this time.

The Defense Secretary has aked Secretary Dulles for his comments on an unsigned draft letter[4] from Defense setting forth and concurring in the views of the JCS. ARA has recommended to Secretary Dulles that he inform the Secretary of Defense that he does not concur with the views of the Joint Chiefs and that State Department and Brazilian Foreign Office membership on the proposed Board is essential to the achievement of our military objectives in Brazil.

[Tab B]

PROPOSED MILITARY EQUIPMENT PROGRAM FOR BRAZIL

On January 13, 1954 the Joint Brazil–United States Military Commission (JBUSMC) submitted a recommendation to the Joint Chiefs of Staff for a $50 million equipment program for the Brazilian Army, Navy and Air Force. This report was signed by the top Brazilian and U.S. members, including Generals Beiderlinden and Wade,[5] and Admiral Whitehead.[6] The State Department has not been officially informed of this recommendation.

The additional forces requested by JBUSMC for Brazil include:

Army:	1 Airborne Regimental Combat Team
	2 Infantry Regimental Combat Teams
	1 Battalion of Medium Tanks
Navy:	16 Destroyer Escort Vessels
	5 Destroyers
	4 Fleet-type Submarines
	It was recommended that these vessels be made available in four installments, the first of which would include:
	4 Destroyer Escort Vessels
	1 Destroyer
	1 Fleet-type Submarine
Air Force:	1 Squadron (12 planes) of C–32 Fairchilds
	1 Squadron (12 planes) of PB4Y–2 (Privateers)
	10 Helicopters (H19)

The Joint Chiefs of Staff and the Pentagon have not taken affirmative action on the recommendation. They have told JBUSMC that the plan is "under consideration". Unofficially, we understand that the Pentagon took a very dim view of the recommendation, and are not prepared to supply the equipment. This creates a serious problem because the Brazilians expect some action.

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[4] Not found in Department of State files.

[5] Maj. Gen. Leigh Wade (USAF), Chief, U.S. Air Force Section, JBUSMC, and Air Chief, MAAG.

[6] Rear Adm. Richard F. Whitehead, Chief, U.S. Naval Mission in Brazil; Chief, U.S. Navy Section, JBUSMC, and Navy Chief, MAAG.

In addition, the Chief of the U.S. Air Force Section of JBUSMC has recommended that six C–47 aircraft be included in the military grant aid progam for Brazil. Brazil has also indicated its interest in purchasing from Defense ten C–45 aircraft and six C–119 airplanes.

[Tab C]

Brazil's Request for Navy Vessels

Brazil transmitted through the State Department to the Defense Department a request for a baby aircraft carrier, two submarines and four destroyer escort vessels. (This corresponds, with modifications, to the first installment recommended by the JBUSMC equipment plan.) Admiral Whitehead, ranking U.S. Navy officer in Brazil, came to Washington for the purpose of personally recommending to Admiral Carney that the Brazilian request be approved. Admiral Araujo,[7] Inspector General of the Brazilian Navy, accompanied Admiral Whitehead to press for favorable action. Mr. Holland informed the Navy of his favorable interest in the matter. As yet no formal reply has been received from the Defense Department.

Admiral Carney informally told Admiral Araujo that the Navy did not have sufficient ships in its reserve fleet to justify approving the Brazilian request in the absence of any overriding political consideration from the State Department. Ambassador Muniz, obviously under great pressure from his Government, has on more than one occasion asked the Department if it would not be possible for us to come up with the necessary political considerations.

The Navy considers its reserve fleet inadequate to justify the transfer of these vessels to Brazil, and such a transfer would require special enabling legislation by Congress.

On July 7 Ambassador Muniz informed Mr. Holland that the Brazilian Navy Chief, Admiral Guillobel,[8] is very irritated about not obtaining from the United States the vessels which he had been encouraged by JBUSMC to believe Brazil could expect. Guillobel threatens to reduce the size of the U.S. Naval Mission, slow down improvements of Brazilian naval bases, and cut down privileges of the U.S. Naval radio facility in Recife.

[Tab D]

Desired Agreement for U.S. Military Facilities in Brazil

The Pentagon is about ready to ask the Department of State to negotiate an agreement with Brazil for certain rights and facilities in that country. A draft agreement[9] has been prepared and sent to Rio for the comments of the Embassy and the U.S. military officials there.

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[7] Vice Adm. Ernesto de Araújo.

[8] Renato de Almeida Guillobel.

1. The Army desires the right to construct and operate a world-wide radio communication station at Recife. This would require obtaining from Brazil 1,150 acres of land and permission to station about 500 officers and men to staff the stations after completion.
2. The Navy desires the right of continued operation of the Naval Radio Station at Recife.
3. The Air Force lists as general requirements three Off-Base sites as surveillance stations for missile flights, and three Air Bases. These would require the acquisition of real estate in several areas in Brazil, the right to use certain airports in Rio, Belem and Natal, and the right to station approximately 840 officers and men at these bases.

Negotiation of this "package" will be virtually impossible if the Brazilian military people remain in their present unhappy frame of mind. Also, even in the best climate for negotiation, ARA does not believe an agreement can be reached unless the Pentagon is willing to give the Brazilians part of what they want (matériel under the $50 million plan) in return for base rights.

The new Combined Board, with Department and Foreign Office membership, should be the logical instrument to work out the solutions to these problems.

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[9] Not printed.

Editorial Note

On August 20, 1954, the United States and Brazil signed an exchange of notes at Rio de Janeiro, effective the same date, declaring that the agreement of February 21, 1952, with respect to the purchase of monazite sand by the United States, was superseded, and providing for the purchase by the Brazilian Government of 100,000 long tons of United States wheat, and the opening of negotiations for the possible purchase of monazite and rare earth sodium sulphates by the United States in equivalent value. The notes were transmitted to the Department of State under cover of despatch 203, from Rio de Janeiro, dated August 23, 1954, not printed (832.2311/8–2354).

Documents in file 832.2546 for 1954 indicate that negotiations between the United States and Brazil for the purchase of monazite and sodium sulphates in accordance with the agreement of August 20 were initiated in September and suspended in November. No purchase agreement was reached in 1954.

Editorial Note

On August 24, 1954, during a period of political crisis in Brazil, President Vargas committed suicide, and Vice President João Café Filho succeeded to the Presidency. Documentation concerning these events and the United States reaction is in files 732.00 and 732.11 for 1954.

398.13/9–1254: Telegram

The Ambassador in Brazil (Kemper) to the Department of State

CONFIDENTIAL RIO DE JANEIRO, September 12, 1954—10 p. m.
PRIORITY

278. Pass Treasury, Federal Reserve Board and Export-Import Bank. From Holland.[1] Full extent extremely critical financial situation Brazil (reference Embassy telegram 270 September 9[2]) resulting from disastrous coffee price support policy and other mistakes of previous government became clear to new administration only last few days. Actual magnitude although feared by technical experts including Embassy owing to sales of dollar exchange for delayed delivery without certainty of cover (see Embassy economic Weekas and financial reports) was not available statistically prior our lengthy discussion with Finance Minister Gudin[3] and staff. Problem breaks down:

(1) Immediate situation to be faced in September; and (2) situation which will become increasingly critical during October–December 1954 and in 1955.

Brazil confronted with immediate crisis in foreign exchange position involving sale of gold if new Federal Reserve gold loan is not granted. Brazilian authorities believe that if they are obliged to sell gold domestic political consequences would be severe if not unbearable to present administration which is trying to gain support to face financial crisis and take necessary measures reorient economic policy.

Brazilian officials assert, however, government would sell gold before defaulting exchange contract. Domestic effects indicated are (1) bears would enter coffee market with resulting reduction sales; (2) commercial bankers reduce credit lines; (3) severe political blow prestige and popular support of present administration. Moreover refusal US grant gold loan forcing sale elsewhere would diminish US influence new administration impairing our ability persuade Brazil take sound economic measures including opening oil development private enterprise.

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[1] Between Sept. 5 and Oct. 10, 1954, Assistant Secretary Holland visited the countries of South America and Mexico for the purpose of discussing with Latin American leaders the policies developed by the United States in preparation for the Rio Economic Conference; pertinent documentation is in file 110.15 HO for 1954.

[2] The referenced telegram, which contains the text of a telegram from the Bank of Brazil to the Federal Reserve Bank in New York City, is in file 398.13/9–954.

[3] Eugenio Gudin.

Following is estimated dollar exchange position for September and following three months on *cash* basis.

Receipts (estimated)	*September 1954*	*October–December 1954*
Exports	60	180
Drawings on bank lines (net)	−5	93
Other	5	0
Total	60	273.0
Expenses for which exchange is closed or promised		
Export-Import loan	4.2	12.6
FRB loan	0	80.3
Swaps (net)	2.5	6.4
Petroleum	12.1	78.6
Imports with exchange closed	39.2	42.0
Exchange certificates in circulation—estimated closings	40.0	64.0
Government commitments	9.2	25.2
Letter of credit, Brazil Light and other	18.1	18.7
Total	125.3	327.8
Deficit (minus)	−65.3	−54.8

To foregoing should be added government imports and newsprint for which exchange must be made available as follows: *September* 1.2 million; *October–December* 15.6 million.

Above represents considered opinion of Ministry Finance and Joao Dantas, director exchange department Bank Brazil. However, Dantas suggested that September crisis could be mitigated by following developments which could not be promised or assured. Receipts: Exports at extreme might reach 70 million (although Embassy believe negligible chance exceeding 60). Drawings on bank lines could rise by 30 million producing net receipt from that source of 25 million. Swaps might not be reduced thus providing additional net income of 5 million rather than net expenditure of 2.5 million. Expenditures: All exchange certificates in circulation might not be presented for closing exchange contracts, reducing 40 million figure to perhaps 30 million. Thus on unexpected favorable turn of events, and robbing remaining months of year to improve September position, deficit might be reduced to 9.0 million. Nevertheless some sale of gold probably still necessary if FRB loan not extended or other sources of credit not found.

October–December picture made acute by obligation to repay existing FRB credit in October. Attempts to alleviate September position while awaiting reply on request for new credit would heighten difficulties in last three months of year as against figures shown in above table.

1955 prospects. Brazil figures for this period which are being airmailed show deficit of 155 million in first six months and 90 million in last six months. These figures assume continuation sale 120 day forward exchange against general imports, 90 days against petroleum and for varying and longer periods against certain services. No wheat imports from dollar area have been provided for although every indication of need for wheat from US or Canada in amounts of about $3 million per month. Dollars to be provided in auction markets 20 million a month commencing in September with exchange to be delivered in January and thereafter.

Brazilians have proposed medium-term loan of $341 million to be available in November or shortly thereafter to pick up deficit as outlined above and to pay off 62 million of bank lines. This would not place Brazil on current basis but would continue 120 and 90 day sale of exchange certificates.

Brazilians request informal. We made no comment beyond clarifying supporting figures. Suggest matter be considered exhaustively with Minister Gudin who arrives Washington September 21. Methods for handling late 54 and 55 deficit far more varied than September deficit and final decision should await disclosure much additional information and appropriate Brazilian action and commitments regarding which Embassy will comment fully.

Am impressed Gudin's ability and sincerity. He asserts willingness continue office until end of present administration and claims full Presidential support combat inflation and institute sound fiscal policies. President personally confirmed this to me and stated will continue present Cabinet regardless outcome October elections. I feel careful analysis present crisis may reveal opportunity achieve reversal long period fiscal folly, institution sound petroleum program and consolidation in power of solidly pro-US Government.

My recommendations (1) feel situation warrants decision before Gudin's arrival Washington that, if necessary, up to full new 80 million gold loan will be granted and (2) full discussion by Washington authorities with Gudin with decision to be made then concerning renewal of old 80 million loan, amount new money required, and arrangements for repayment of such FRB credits as may be then outstanding.

I strongly urge no publicity and express no opinion US domestic political implications.

KEMPER

832.10/10–754

Memorandum of Conversation, by the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward)

CONFIDENTIAL [WASHINGTON,] October 7, 1954.

Subject: Future Assistance in Solving Brazil's Exchange Problem

Participants: Secretary of the Treasury
Under Secretary of State
Mr. Andrew Overby, Assistant Secretary of the Treasury
Mr. Kalijarvi, Deputy Assistant Secretary for Economic Affairs
Mr. Woodward, ARA

Mr. Hoover had requested the conversation with Secretary Humphrey in order to arrive at a preliminary position with respect to possible future assistance to Brazil in solving its exchange problem. When the meeting was suggested, it had been expected that the Brazilian Finance Minister might come to Washington briefly before his departure for Brazil. Before the meeting took place, however, it had been learned that the Brazilian Finance Minister had departed from New York for Brazil that morning, fairly well satisfied with the success of his mission in obtaining an additional gold loan of $80 million and provoking serious thought among high officials of the United States Government concerning methods of giving future assistance to Brazil. Therefore, the meeting with Secretary Humphrey assumed less urgency.

Secretary Humphrey conceded that we would have to face the problem of further financial assistance to Brazil because of the inevitable exchange deficit in 1955. Secretary Humphrey emphasized, however, that the data received from Brazilian officials in the past had proved to be so unreliable that the first important step would be to make certain that reliable and detailed information is obtained concerning the precise exchange position of that country. Mr. Hoover agreed, and as a result of thorough discussion, it was decided that Assistant Secretary Overby and Assistant Secretary Waugh would be responsible for consulting with the Presidents of the Eximbank and the IBRD in order to select two or more fully qualified persons who could go to Rio de Janeiro and examine into the precise exchange situation of Brazil. Mr. Hoover said that these persons would be given every facility by the Embassy and that it might be desirable to have the principal officer formally designated as a Treasury representative.

Mr. Overby mentioned, in the course of the discussion, that Senhor Paraguaná[1] of the IMF, who carries out special assignments for the

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[1] Octavio Paraguaná, Executive Director for Brazil, IMF.

Brazilian Government, had given him a tabulation of the Brazilian exchange situation with the outline of a plan[2] by which Brazil could refinance the amounts of repayments on the loan against gold as these repayments become due, by borrowing equivalent amounts against gold from commercial banks in New York. By this system, Mr. Overby said that Senhor Paraguaná had demonstrated with his calculations that Brazil could maintain its exchange situation without other loans until the middle of 1955—provided, of course, that the Brazilian Government carries out certain measures to reduce the dimensions of the problem by further curtailment of imports. Even this plan would only postpone the necessity for further assistance to Brazil in maintaining its exchange position, unless Brazil should succeed in taking measures which would attract large amounts of additional foreign capital for exploration for petroleum.

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[2] Reference is to the "Paraguaná Plan", a proposal whereby Brazil would raise $216 million to cover deficits through 1955 by postponing certain payments due on Export-Import Bank loans, obtaining loans against gold from private banks, and drawing an additional $50 million from the IMF.

832.10/11–754

Memorandum by the Director of the Office of Financial and Development Policy (Corbett) to the Assistant Secretary of State for Economic Affairs (Waugh)[1]

CONFIDENTIAL [WASHINGTON,] November 17, 1954.

Subject: Brazil's request for financial assistance.

Problem:

What is the financial position of Brazil, and is the new Government doing all that can reasonably be expected? Should the U.S. aid Brazil and if so what shall be the extent, timing and conditions of such aid?

Discussion:

In spite of recent borrowings it appears that Brazil's supply of dollars will be inadequate over the next 12–14 months to meet maturing obligations and pay for essential imports, even on an austerity basis. According to figures brought back from Rio by Messrs. Knoke and deBeers, Brazil had at the first of November cash balances of $33.7 million and unused lines of credit of $19 million, a total of $54.7 million to meet an expected deficit of $84.3 million to January 1, 1954. Brazil, however, is about to receive $40 million from private N.Y. banks, and be relieved of $26.8 of payments due the Federal Reserve Bank of New York during this period. Also exchange earnings during the first 11 days of November have amounted to $39 million which is better than expected; the estimated deficit is based on earnings of $60 million per month.

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[1] Drafted by John P. Young of the Office of Financial and Development Policy; concurred in by Mr. Cottrell, and in substance by Mr. Atwood.

Brazil will therefore probably have enough dollars to get through January and perhaps February. The swaps need not be reduced as rapidly as scheduled during the next few months, and there is a little flexibility in some other items, although not a great deal since a large portion of the payments are contractual obligations.

During 1955 the situation is similarly bleak, unless coffee and other earnings should be materially better than the $60 million per month estimated. The price of coffee has been falling and futures indicate a further substantial decline is expected, so that estimated earnings may not be realized. The dollar deficit for 1955 is calculated at $202 million, which does not, however, allow for elimination of payments to the Federal Reserve Bank of New York of $134 million, thereby reducing the deficit to about $68 million. Brazil is asking for an Eximbank loan of $100 million.

The new Government is doing well in measures to control inflation. The coffee policy, however, is essentially unchanged and involves internal price supports at a level which encourages withholding of coffee from export. The Brazilians seem to feel that larger exports would not result in larger dollar earnings. They, including perhaps Mr. Gudin, do not appear greatly concerned about the coffee policy, and assert that in any event for political reasons it cannot be changed until the next coffee year which begins June 30.

Similarly with respect to petroleum, we are told that for political reasons nothing can be done for some time, that the next Congress which convenes in March may be able to deal with it. Mr. Gudin recognizes the need for changing the petroleum law, but President Cafe Filho is, according to the Embassy, insufficiently aware of the seriousness of the exchange problem and the relation of coffee and petroleum to it.

If the U.S. bails out the new Government they will doubtless relax, and while the program to control inflation and to institute certain other reforms will go forward, it will lose steam and the tendency will be not to deal adequately with the main problems, particularly coffee and petroleum.

Recommendation:

The U.S. should extend aid to Brazil, but this should not be in one large sum. It should be extended piece-meal, and in each case without commitment as to further amounts, which would depend upon developments and Brazil's progress in a constructive program. An initial sum might be granted in January if needed at that time and if other conditions are satisfactory.

We should discuss Brazil's problems with the President, the Foreign Minister and Finance Minister, complimenting them on their measures to control inflation, but pointing out our difficulties in extending aid in the absence of a coffee policy which permits coffee to move in volume, and a petroleum policy which permits the development of petroleum resources. We should urge that they announce a new petroleum policy. We should tell them that it appears they will not need aid until at least in January, and that at that time we will consider aid for immediate needs, and that further amounts will depend upon developments. If the coffee and petroleum problems should be satisfactorily dealt with in the near future, and the need for aid existed the U.S. might then modify the piece-meal approach.[2]

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[2] Mr. Waugh saw this memorandum, but there is no indication on the source text whether he approved or disapproved the recommendation.

820.2333/12–2854

Memorandum of Conversation, by Sterling J. Cottrell of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] December 28, 1954.

Subject: Coffee situation.

Participants:
- Mr. João Carlos Muniz, Brazilian Ambassador to the U.S.
- Mr. Egydio da Camara Souza, Economic Minister, Brazilian Embassy
- Mr. Maury Gurgel Valente, First Secretary, Brazilian Embassy
- ARA—Assistant Secretary Henry F. Holland
- E—Assistant Secretary Samuel C. Waugh
- OMP—Mr. Willis C. Armstrong
- OSA—Sterling J. Cottrell

Ambassador Muniz presented a note which, he said, he had been instructed by the Foreign Office to discuss with Mr. Holland, Mr. Waugh, or the Secretary, in his discretion. The note referred to very unfavorable reaction in Brazil if the U.S. Congress were to place coffee under the Commodities Exchange Authority. The note and Ambassador Muniz' explanatory remarks indicated that the Brazilians felt this action would be unnecessary, discriminatory, inopportune, and untimely, since the Rio Conference had succeeded in establishing a fairly satisfactory atmosphere, and possibly a violation of the resolution[1] adopted at Rio to establish a special committee to study the coffee situation. The Ambassador explained that a unilateral act on the part of the U.S. to control the coffee market would be contradictory to the multilateral agreement reached at Rio to work out this problem under the framework of the OAS.

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[1] Reference is to Resolution ES–Res. 34/54, approved Dec. 1, 1954; for text, see *Report of the United States Delegation to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, November 22 to December 2, 1954, Quitandinha, Brazil* (Washington, 1954), Appendix 6, p. 14.

The Ambassador was informed that in our view the resolution at Rio could not be construed as limiting the rights of Congressional committees to make any recommendations they see fit. However, Mr. Waugh said that he intended to see Senator Capehart on another matter and would be glad to provide the Senator with a copy of the resolution reached at Rio. Mr. Armstrong undertook to inform appropriate members of the Beall Committee[2] of this resolution.

In the discussion it was the general understanding that the Beall Staff Committee was now preparing its report but that it would not be submitted to the full Committee until some time in February. After that there would be hearings prior to any legislative action by the U.S. Congress if the Beall report recommended legislation.

The Ambassador concluded by urging that all appropriate steps be taken by the Department to inform the Beall and Capehart Committees of the anticipated repercussions from coffee-producing countries if legislation were introduced to place coffee under the Commodities Exchange Authority. During the meeting Ambassador Muniz was called to the 'phone and then reported that Mr. Paraguaná had just received a telephone call from Minister Gudin, asking for a decision from Secretary Humphrey concerning a standby loan for Brazil. The Ambassador said that Minister Gudin, on the basis of his conversations with Secretary Humphrey in Rio, was hopeful of a favorable answer. Mr. Holland said he would look into this matter for him.

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[2] Apparent reference to the Senate Committee on Banking and Currency's Special Subcommittee to Investigate Coffee Prices. The Special Subcommittee was established in January 1954, with Senator J. Glenn Beall (R.–Md.) as Chairman, and it subsequently held hearings.

CHILE

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND CHILE[1]

Miller files, lot 53 D 26, "Chile"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Chile (Bowers)

CONFIDENTIAL [WASHINGTON,] January 7, 1952.

DEAR AMBASSADOR BOWERS:

[Here follow comments about Ambassador Bowers' health and the tin situation in Bolivia.]

I am extremely worried about the copper situation. Nieto del Rio[2] and Muller[3] came in to see me last Friday, as predicted in your telegram 334,[4] to warn that any effort to change the price of copper without Chile's consent could lead to Chile taking over all the country's production as authorized in the bill[5] which recently passed the Chamber of Deputies. You will be getting a report of this conversation from Barall. However, to me it is just one more instance of Gonzalez Videla and the Chileans going off half cocked without any responsible study of their action. To base a major governmental decision upon a half-garbled newspaper account by one official of our Government without any prior checking with us seems to me to represent the height of irresponsibility and to verge on Mossadegh[6] tactics. We were able very simply to point out to Muller and Nieto that there was not the remotest thought of tampering with Chile's copper price and that we would never think of changing any price covered in an international agreement without consulting with the other country. Then I think I really impressed them by saying that Chile had to stop acting in this way since they were only prejudicing their own position in this country. I said that the copper companies had already expressed grave concern to us over the pending legislation and that they were seriously considering reviewing their whole investment program in Chile. This could only have adverse repercussions to Chile's economy.

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[1] Continued from *Foreign Relations*, 1951, vol. II, pp. 1238 ff.

[2] Félix Nieto del Río, Chilean Ambassador to the United States.

[3] Walter Muller, Chilean representative to the International Materials Conference (IMC).

[4] Dated Jan. 4, 1952, not printed (825.2542/1–452).

[5] Reference is to the bill authorizing the formation of a national copper council which was approved in the Chilean Chamber of Deputies on Dec. 27, 1951. A summary of the bill's provisions was transmitted to the Department of State under cover of despatch 769, from Santiago, dated Dec. 29, 1951, not printed (825.2542/12–2951). The bill became law on Feb. 12, 1952.

[6] Mohammed Mosadeq, Premier of Iran.

It seems to me that some time you might have a frank talk with Gonzalez Videla and others about this constant trend on the part of Chileans to make their entire cooperation with us hinge upon details of our conduct towards them and to disregard entirely the things that we have done for Chile. The list of these things include the following during the last year:

1) Export-Import Bank loan for amplification of steel mill.[7]

2) Obtaining of priorities for steel mill at strong insistence of the Department of State with NPA to obtain steel badly needed in our defense program.

3) Obtaining of priorities for construction of petroleum refinery which was equally as difficult as the priorities for the steel mill. (The result of the obtaining of these two priorities puts Chile in as favorable position for steel allocations as any country in the world and took a very great deal of urging. We had to use as a basis for these discussions with NPA the resolutions of the Foreign Ministers' Conference[8] with regard to supplying Latin American requirements which of course were predicated on the parallel resolutions having to do with their supplying us with strategic materials.)

4) Straightening out of Chile's long difficulties with the International Bank which as the President will remember was personally attended to by me when I was in Chile last March. At the time he seemed to express due gratitude for this although it seems to have slipped his mind since. If it had not been for the coincidence of my visit and that of Black's, I doubt very much whether there would exist the present happy state of affairs between the Bank and Chile.

5) The sale of two cruisers to Chile at bargain prices *both* of which have been delivered to Chile in perfect form ahead of those bought by Brazil and Argentina.

6) Offer to negotiate a grant military aid agreement with Chile entirely unconditional upon any demonstration of Chile's interest in Korea.

7) Negotiation of copper agreement with Chile under which Chile obtains 3 cents a pound for copper more than our own producers, copper being the only commodity with regard to which our producers get less than foreign producers. So far as I know no one in Chile has taken the trouble to answer the demagogic attacks against the United States that this is so.

8) Substantial increase in our Point IV activities in Chile especially in agricultural fields as desired by the President.

9) United States support of Chile for the Security Council of the UN

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[7] Reference is to Export-Import Bank credit no. 502 in the amount of $10 million authorized Aug. 9, 1951.

[8] Reference is to the Fourth Meeting of Consultation of Ministers of Foreign Affairs of American States, held at Washington, Mar. 26–Apr. 7, 1951; for documentation, see *Foreign Relations*, 1951, vol. II, pp. 925 ff. For text of the resolutions approved by the meeting, see *Fourth Meeting of Consultation of Ministers of Foreign Affairs: Proceedings* (Washington, 1951), pp. 234–268.

and for the election of Sra. Figueroa[9] as President of the General Assembly's Committee on Human Rights.

As against this, we have the following record on the part of Chile:

1) Total lack of interest in responding to our request for troops for Korea.

2) Failure on the part of Chile to implement copper agreement by passing law with regard to fair exchange and tax treatment for American copper companies while on the other hand an extremely dangerous bill is about to pass giving President power of life or death over companies which he may be forced by the exigencies of the campaign to invoke.

3) Demagogic attacks on American and Foreign Power Company and other American interests.

4) Frequently uncooperative attitude of Santa Cruz[10] in UN, for example, in holding out until nearly the bitter end in favor of Byelorussia instead of Greece for the Security Council[11] and in his intransigent and blackmailing attitude in regard to his resolution on economic development.[12]

It seems to me that the story of U.S. cooperation with Chile has not been told and that the Chilean public is being sold a bill of goods by their own Government. It seems to me that this is extremely unfortunate when most of the Chilean leaders are friends of the U.S. I understand that most of the Latin Americans including our friends everywhere conceive that political necessity in an election year requires attacks on the United States. I am terribly afraid that these attacks on the United States may whip up such sentiment that the Government, largely because of its own acquiescence in this type of behavior, may find itself in the position where it will have to take demagogic and prejudicial action such as invoking the authority given in the legislation under reference on acquiescing in a conference of twenty Latin American countries to put the heat on the United States with regard to raw material prices.

I think that Chile ought to realize that if they expect us in the State Department to continue to fight their battles for them successfully, as we have been doing, with other agencies of this Government which are subjected to the most intense internal domestic pressures, they will not be helping their case or ours by breaking their commitments to us or by creating in this country the kind of adverse publicity for Chile which would ensue from activities of the type mentioned.

Sincerely yours,

EDWARD G. MILLER, JR.

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[9] Ana Figueroa, member, Chilean Permanent Delegation to the United Nations.

[10] Hernán Santa Cruz, Chilean Permanent Representative to the United Nations.

[11] For documentation on this subject, see *Foreign Relations*, 1951, vol. II, pp. 78 ff.

[12] Apparent reference to the resolution requesting the establishment of a special UN fund for the economic development (SUNFED) of underdeveloped countries, introduced in General Assembly Committee II, Nov. 22, 1951; for text of the draft resolution, see United Nations, *Official Records of the General Assembly, Sixth Session, Annexes*, fascicule for agenda item 26, p. 5. For documentation concerning SUNFED, see volume I.

Editorial Note

On January 21, 1952, representatives of the United States and Chile initiated negotiations at Santiago for a bilateral military assistance agreement. Pertinent documents are in Department of State file 725.5 MSP. The agreement was signed on April 9, and entered into force on July 11, 1952; for text, see Department of State Treaties and Other International Acts Series (TIAS) No. 2703 or *United States Treaties and Other International Agreements* (UST), volume 3 (part 4), page 5123.

Concurrent with the negotiations for the military assistance agreement, representatives of the two governments negotiated a related bilateral military plan. The "Plan of the Governments of the Republic of Chile and of the United States of America for Their Common Defense" was initialed on April 9, 1952, by Ambassador Bowers and Chilean Minister for National Defense General Guillermo Barrios Tirado. A copy of the plan and a translation were transmitted to the Department of State under cover of despatch 1210, from Santiago, dated April 10, 1952, not printed (725.5 MSP/4–1052).

825.2542/1–2552: Telegram

The Secretary of State to the Embassy in Chile[1]

SECRET PRIORITY WASHINGTON, January 25, 1952—5:27 p. m.

349. No distribution outside Department. From Assistant Secretary Miller. Defense Mobilizer Wilson convened top level conference this morning at which Thorp, Brown and I present for Dept to discuss extremely critical copper situation. Requirements defense program such that US estimated to have 60,000 ton deficit first two quarters this year. As one possibility acquiring additional copper suggestion was put forward by some officials present at meeting that US shld consider offering Chile higher prices than 27½ cents per pound for part of Chile's retained 20 percent of US cos production. Depts reps strongly discouraged this idea on ground 1) that polit situation re copper so touchy in Chile that any move along this line might upset present relatively satisfactory copper agreement and 2) we cld probably not obtain enough copper to make any appreciable impact our shortages so as to warrant taking risks which we foresaw in Chile.

Our recommendation was that best course for us wld be to encourage increased production by US cos in Chile and that to this end we shld try to get Chile Govt to adopt soonest necessary laws and regs re revised tax and exchange treatment for copper cos.

We will have another meeting next week with reps Kennecott and Anaconda to discuss these problems in greater detail. Tele immed your estimate chances enactment laws re tax and exchange treatment and whether there is anything Emb can do to expedite. Also any gen observations you may have re possibility obtain additional Chile copper.

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[1] Drafted and signed for the Secretary by Mr. Miller.

Since defense production officials virtually keeping track each ton of copper produced in free world Emb is requested for next few months supplement its already excellent reporting re copper situation by forwarding detailed current info Chile copper situation in gen.[2]

ACHESON

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[2] In telegram 392, from Santiago, dated Jan. 28, 1952, Ambassador Bowers suggested that one possible way to obtain more copper from Chile was to amend the United States–Chile copper agreement of 1951 to enable the United States to purchase 90 percent rather than 80 percent of the total Chilean production. He also stated that the Embassy did not see any way that it could "effectively enter picture with govt to seek early enactment tax and exchange law." (825.2542/1–2852)

825.2542/3–1452

Memorandum of Conversation, by the Director of the Office of International Materials Policy (Brown)

SECRET [WASHINGTON,] March 14, 1952.

Subject: Copper

Participants: Mr. Nieto del Río—Chilean Ambassador
Mr. Muller—Economic Counselor, Chilean Embassy
Mr. Wilson—Director of Defense Mobilization
Mr. Brown—OMP

The meeting was arranged as a result of the Ambassador's instructions from his government to continue discussions about the price of Chilean copper on an informal basis with Mr. Wilson if possible.

Mr. Wilson opened the meeting by reporting that the night before he had received the first good news about copper that he had had in some time. He had attended a meeting of a business advisory group at which many large copper consumers were represented. They had all told him that they were much less worried about copper than they had been and were getting ample supplies for their needs. Mr. Wilson pointed out the extent to which aluminum was becoming available and was being used in substitution for copper, either by directive of the Government or as a result of the user's choice.

Mr. Muller pointed out that, nevertheless, copper was still in short supply and the United States representative in the IMC was actively pressing for large allocations for the United States.

Mr. Muller outlined the problems facing Chile, namely, that it was beginning to find difficulty in selling its 20 percent at 54 cents a pound, that it did not like to seem to be holding up friendly European countries for high prices, and that it would like to have a single price for copper at, say, 33½ cents. It seemed anomalous that the United

States, the richest country in the world, should be paying the lowest price for its copper, and that poorer countries, which the United States was aiding financially, should be paying high prices for their copper.

Moreover, Mr. Muller said, it seemed unjust to the material-producing countries that the large industrial countries should extol the virtues of the law of supply and demand when supplies were plentiful and prices were low, but should rush in to impose price and other controls as soon as shortages developed. In his opinion, there could be no long-term solution of the problem of the material-producing countries, no solid foundation for a democracy in which the bad influence of demagogues could be counteracted, until some assurance of substantial and stable income from primary products could be given to the producing countries.

Mr. Muller appreciated the desire of the United States to keep stable prices. He recognized that this policy worked substantially to the benefit of Chile. He was not well enough aware of United States domestic procedures to be able to suggest exactly how the problem might be met, but the possibility occurred to him that the United States might buy Chilean copper at a higher price for its military requirements, keeping other supplies under control. This might be possible since military products did not enter into the general price structure.

Mr. Wilson said that he was impressed by what Mr. Muller had said and was appreciative of Chile's problem. He did not see how the United States could possibly be justified in increasing the domestic price of copper in view of the profits currently being earned by the domestic copper producers. Moreover, he felt that inflation was one of the great enemies facing the United States and he did not want to see an increase in the price of copper which would necessarily have to be passed on through the general price structure. He thought the mechanical problem of allocating high-priced Chilean copper to military orders, scattered in 100,000 plants over the United States, would be almost insuperable.

Mr. Muller countered by pointing out that the amount of copper which would be imported from Chile would be less than half the United States military requirements as presented to the IMC and could certainly be taken up by a few of the major domestic consumers such as ordnance factories and certain large corporations.

Mr. Wilson pointed out how unhappy the United States was about the failure of Chile to enact the tax and exchange legislation which had been agreed with the companies a year ago. Mr. Muller and the Ambassador said they personally felt equally unhappy about it. Mr. Muller said that a satisfactory solution of the current problem would make it much easier for Chile to pass the law now. I pointed out that this was precisely what had been said by Chilean negotiators a year ago. Mr. Muller and the Ambassador accepted this point as valid.

Mr. Muller made it perfectly clear that no part of any increase in price which he was suggesting would go to the companies. He said that he was negotiating for the Chilean Government, not for the companies which were making good profits at present prices.

Mr. Muller emphasized the political difficulties faced by the Chilean Government in an election year, with four candidates running for president, each one trying to outdo the other in promises to the voters.

It was left that the matter would be discussed further and that if reporters should ask about the visit, we should say that the Chileans called to discuss with Mr. Wilson the possible effect of his recently announced proposals for expansion of aluminum production on copper.

After the Chileans left, I asked Mr. Wilson how he proposd to follow up on the matter. He said he hoped it could be stalled for ten days or two weeks, since very important decisions would have to be made in connection with steel that might affect the whole future of CMP. I said I thought that would be easy, but that there should be a genuine negotiation, headed by someone from Mr. Wilson's office. Mr. Wilson inquired who we thought the negotiator should be. I said the best negotiator we had seen around in a long time was Mr. Fleischmann. Mr. Wilson said he would try to get him to do it and would let the Chileans know whom he had appointed by Tuesday or Wednesday of the following week. He said the negotiating team would include Mr. Larson and someone from State.[1]

I reminded Mr. Wilson of his agreement to take the companies into his confidence in any negotiation with the Chileans and to include them in the negotiation. Mr. Wilson said he did not think it would be necessary to bring the companies in at this stage.

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[1] Director of the Office of International Materials Policy Brown was subsequently designated to represent the Department of State in the copper negotiations with Chilean representatives that were initiated in the latter part of March.

825.2542/3–3152

Draft Position Paper Prepared in the Department of State[1]

SECRET [WASHINGTON,] March 31, 1952.

DEPARTMENTAL POSITION CONCERNING CHILEAN COPPER NEGOTIATIONS

Problem

The Department member of the team designated to negotiate with Chile has been asked what course it [*sic*] recommends.

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[1] Drafted by Deputy Director of the Office of International Materials Policy Evans.

Discussion

1. Chile has asked for renegotiation of the agreement under which 80 percent of the production of the large mines remains under control of the companies and the remaining 20 percent is controlled by the Chilean Government. The agreement had no explicit time period, but it is agreed that Chile could unilaterally renounce it after one year (mid-May) without violating its spirit.

2. Chile is in a strong bargaining position:

(a) Although the world free price for copper has weakened lately, it is still substantially over 27½ cents.

(b) We depend on Chilean copper to provide some 15 to 20 percent of the supply on which our second and third quarter CMP allocations are based. We could not forego Chilean imports without serious impact on the defense effort and our basic economy. In fact, we are in serious need of increased supplies.

(c) Chile might not be able to sell more than its 20 percent at prices much above 27½ cents but it could obtain more governmental revenue by seizing what is left of the companies' profits, either by tax action or outright expropriation. The present government is unlikely to take drastic action along these lines, but the legislature is quite capable of doing so.

3. The next move is up to the United States. Mr. Larson agreed to "think it over" and call the next meeting. We are not likely to obtain any advantage by delay:

(a) The present level of deliveries is unsatisfactory.

(b) Only a month and a half remains before Chile could renounce the present agreement with a clear conscience.

(c) Further delay is likely to arouse indignation and increase the likelihood of punitive action by the legislature.

4. We are forced to choose among several alternatives, none of them attractive.

Two theoretical alternatives can be rejected without serious consideration. The first—holding firm with no concession to Chile—is impracticable in the light of the strong Chilean bargaining position mentioned above and our need for increased copper supplies. At the opposite extreme there would be the possibility of the United States offering a long term contract which would support Chile's copper price for some time to come. In view of some indications that the world price is weakening, this might be sufficiently attractive to Chile to persuade them to settle for 27½ cents, or possibly even lower. On the other hand, if world free prices should go below 27½ cents, the United States Government would be incurring a very expensive liability. None of the usual arguments for long term contracts, such as their usefulness in stimulating additional production, is particularly applicable. The United States would do better to seek a solution which would not prevent the world price from declining to the United States domestic price level whenever supply and demand will permit.

If these two alternatives are eliminated, the three principal courses worth further exploration are:

Alternative A

Buy some additional copper from Chile (say 10 percent of the large line production) at a price well above 27½ cents.

Alternative B

In exchange for Chilean agreement to permit the companies to dispose of 90 percent of their production, revise the price in the agreement upward with the understanding Chile would sell all her copper at that price.

Alternative C

Same as alternative B but permit Chile to sell the remaining 10 percent and the small mine production at higher prices.

Appraisal of Alternatives

Alternative A has the possible advantage of postponing an increase in the price of copper being sold by other countries at 27½ cents. But it seems unlikely that this advantage would be more than temporary. Its two principal disadvantages are that it would require Government purchase, at a loss, and that it would improve the bargaining position of Chile in the sale of its remaining copper and add to the economic difficulties of Chile's European customers.

Alternative B would have the disadvantage of immediately raising the price of the remaining 27½ cent copper in the world. On the other hand, it would leave market forces free to bring that price down as supply improves or demand slackens. It would not require United States Government purchase, at a loss to the Government. It would ease the problem of Chile's European customers.

Alternative C would avoid United States Government purchase but might retard the effect of supply and demand in reducing world prices and would transfer the burden to Chile's European customers.

If the total cost to the United States taxpayers and consumers were the same for all three alternatives, alternative B would clearly seem to be the best. It would probably establish a single price outside the United States. It would make it possible for Chile to place its entire production under international allocation. It would eliminate a cause of friction between the United States and other customers of Chile. It would make it unnecessary for the United States Government to purchase foreign copper and would probably best protect the future position of the companies by reestablishing their right to maintain their normal commercial outlets.

It is impossible, however, to determine the respective costs of the three alternatives except by negotiation.

Recommendation

That the United States proceed with negotiations to determine which alternative would cost United States consumers or the United States Government the most, and then decide which alternative, if any, is acceptable.

In sounding out the Chileans, the following position should be made clear:

(1) We would not necessarily accept any increase but want to learn more precisely the price Chile would demand under specified conditions.

(2) Under all three alternatives the following conditions would apply:

(a) Chile would pass the tax legislation promised last spring.

(b) Chile would agree not to withhold any of the "backlog" now owed by the companies.

(3) In addition, the following conditions would apply to the specified alternatives:

Alternative A. Chile would not object to the sale by American companies of any part of their 90 percent to their traditional customers.

Alternative B. Chile would place all production under IMC allocation.

Alternative C. Same as alternative A.

No final decision on the three alternatives should be made until the negotiators are convinced they have obtained the best Chilean offer on each. Nevertheless, it should not be assumed that the decision as to which alternative we should accept should be based entirely on the average price of Chilean exports to the United States. It may be that the advantage of avoiding cost to the taxpayer and the other advantages of alternative B would argue in favor of its selection even though the average price were somewhat higher than for either of the other alternatives.

825.2542/4–252

Memorandum of Conversation, by Milton Barall of the Office of South American Affairs

SECRET [WASHINGTON,] April 2, 1952.

Participants: Señor Felix Nieto del Río, Chilean Ambassador
Mr. Atwood, Director, OSA
Mr. Brown, Director, OMP
Mr. Barall, OSA

The Ambassador stated that he had received instructions from his government to call off the "informal" talks in which he had been engaged with Assistant Secretary Miller, Mr. Charles E. Wilson, Mr. Larson, Mr. Fleischmann, Mr. Atwood, Mr. Brown, etc. He offered an opinion that the reason for the change might be the possibility of adverse political repercussions in Chile. He said that the Chilean public was more interested in what happened to the 20 percent than in the bulk of copper shipments and if action were taken to establish a 33½ cent price for all of Chile's copper this might be misconstrued by the public as a negotiation which lowered the price of copper instead of raising it.

He said the President had informed him that the Banco Central was having no difficulty in selling Chile's 20 percent at the high price established (54.4 cents per pound as opposed to 27½ cents for the 80 percent) and agreed that, if this is so, the urgent necessity for discussions of a possible increase to 33½ cents no longer existed. He did not raise the question of eliminating the two-price system which had been used as the basic argument for initiating the conversations. The Ambassador added that, of course, if the US had a proposal to submit with respect to a new copper price, the Chilean Government would be glad to consider it at any time, even a year or two from now, thus implying that the copper agreement would remain indefinitely in effect.

The Ambassador expressed his personal opinion that the termination of the copper talks did not mean that Chile was prepared to take unilateral action and impose an export tax. He said the President would not take such action because of his high respect for international agreements and because of his loyalty and friendship toward the United States. In answer to a specific query on the stories which had appeared in the Government's newspaper, *La Nación*, concerning the possibility of a 10-cent export tax, the Ambassador stated that there had been considerable discussion in Congress and in the press on the subject of an export tax, but that within the government itself there was no desire for this type of action.

The Ambassador stated that he had received word from President Gonzalez yesterday that the nitrate strike was settled satisfactorily and that the possibility of a copper strike had been averted, with the situation well in hand. Mr. Atwood commented that this was certainly good news for Chile since with a good market for both copper and nitrate at this time Chile stood to lose large amounts of dollar exchange if exports were curtailed. The Ambassador agreed and added that Chile had lost about 100,000 tons of nitrate sales as a result of the strike. He asked Mr. Brown to express his thanks to Mr. Wilson, Mr. Fleischmann, Mr. Larson, and the others who had dealt with him very sympathetically on the subject of copper. He also expressed his personal satisfaction that the talks had been called off. Mr. Brown promised to convey the Ambassador's message to the other gentlemen concerned. Mr. Atwood thanked the Ambassador for informing the Department promptly of the decision of the Chilean Government.[1]

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[1] In telegram 496, to Santiago, dated Apr. 9, 1952, Mr. Miller stated that he had reason to believe that Ambassador Nieto del Río had misconstrued his instructions to suspend the copper negotiations, and also that Chile had no intention to abandon its efforts to obtain a higher price for its copper. He further stated the following: "I am worried about Chile's tactics since Nieto and Muller began their informal conversations with us several weeks ago. They have been very careful keep conversations on 'informal' basis and to put responsibility on us for proposing solution to their problem. I am very much afraid they may be maneuvering us into position where they cld justify imposition substantially higher price. Naturally in view anti-inflation program in Govt and gen softening raw material prices, it is extremely difficult for us, in absence specific Chil proposal, give serious consideration to price rise. Coming on top of Chile's peculiar tactics, Nieto's apparent misconstruction his instrs may put us in difficult position inviting drastic action by Chil Govt." (825.2542/4–252)

825.2542/5–252

Memorandum of Conversation, by Milton Barall of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] May 2, 1952.

Subject: Chile Denounces Copper Agreement

Participants: Ambassador Félix Nieto del Río, Chilean Ambassador
Señor Mario Rodríguez, Counselor, Chilean Embassy
Senor Jorge Burr, Counselor, Chilean Embassy
Assistant Secretary Edward G. Miller
R. S. Atwood, Director, OSA
Mr. Barall, OSA

The Ambassador said he had received a telephone call from President González Videla this morning instructing him to see the President of the United States in order to inform him that the Chilean Government had reached a decision to denounce the copper agreement of 1951 and take full control of the sale of copper. (Presumably under the provisions of Law No. 10,255 of February 12, 1952.) The Ambassador explained that he knew President Truman was busy with important strikes and he, therefore, approached the State Department instead. He said the reasons for the decision of the Chilean Government, as explained to him by the President, were:

a. The extreme danger in which the Government finds itself both politically and economically.

b. A Foreign Exchange Budget for 1952 which is short by an anticipated $50 million because of the failure of Chile to get its price in sales of its 20 percent quota.

c. Rising anti-US sentiment in Chile despite the efforts of the Government to keep it down. (At this point, Mr. Miller interjected the question, "What efforts?" He said he knew of no efforts on the part of the Chilean Government to combat anti-US feeling. The Ambassador was unable to reply.)

d. The strike in the Anaconda mines which threatened to spread to the Kennecott mine, too.

e. Chile's inability to work out a satisfactory price arrangement with the United States in recent "informal" conversations.

f. Chile's desire to avoid the type of thing which developed in Bolivia.

The Ambassador said he had also been instructed to continue to negotiate with the United States (presumably about a new price for any part of the production of the American-owned mines which might be sold in the United States). He then said he had been instructed to ascertain and report on the US reaction to Chile's decision.

Mr. Miller replied that the Ambassador could inform the President that the reaction in the United States was extremely bad, since denunciation of an agreement is a very strong measure. He expressed the opinion that unilateral action on the part of Chile to denounce the copper agreement and take control of all the copper produced by the American copper companies was exactly the thing that Lechín[1] was proposing to do in Bolivia. Mr. Miller said this would affect every aspect of our relations with Chile; that it would make it almost impossible to secure further investment of American private capital in Chile; it would strongly affect Chile's credit position in the United States, which might not be able to grant any additional loans; that Chile's action was against her own interest and would make her a residual supplier of copper at a time when production was increasing in other countries and aluminum was being developed as a substitute; that the US had agreed to a 3 cent increase in the price of copper in the 1951 agreement and abrogation of this agreement might drop the price back to 24½ cents; the United States had shown itself to be willing to discuss the price of copper or any other specific proposal made by the Chilean Government; that meetings had been arranged with the highest officials in the government to discuss this problem, but Chile, not the United States, called off these talks; the US might have to use its stockpile; Chile was trying to throw the blame for its action on the United States but our hands were perfectly clean since we had lived up to the copper agreement and had shown our willingness to negotiate, whereas Chile had not lived up to its obligations under the agreement and had failed to pass the copper contract law. He added that he had been wondering if the entire purpose of the "informal" talks had been to try to throw the onus on the United States for the action that Chile proposed to take. With respect to the continuation of negotiations, Mr. Miller said "This would mean negotiating with a gun at our heads". However, he added, as the representative of a sovereign nation, the Ambassador could see President Truman at any time and the Department could arrange for an appointment if he wished. The Ambassador said he would like to see the President next week if possible.

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[1] Juan Lechín Oquendo, Bolivian Minister of Mines and Petroleum.

The Department officers asked when and how the agreement would be denounced. Ambassador Nieto did not know, but said that President González had told him over the phone that he was going to call in Ambassador Bowers today to inform him of the decision of the Chilean Government. When asked if the American companies had been notified, Nieto replied in the negative. The Ambassador tried to throw some responsibility for Chile's action on the American companies for selling copper in Europe in competition with Chile's 20 percent. The Department officers pointed out that, if 40,000 tons sold in Europe was enough to depress the market for Chile's 20 percent, how much worse it would be for Chile when all of its copper becomes available in that market. It was strongly stated that US capital had been a major factor in building up Chile's economy and that, in the long run, Chile's denunciation of the agreement was not in her own best interest.

825.2542/5-552: Telegram

The Ambassador in Chile (Bowers) to the Department of State

CONFIDENTIAL SANTIAGO, May 5, 1952—4 p. m.

574. For Miller and Pres. Saw Pres at his request. His explanation of recent event follows:

He says public statement of Fleischmann and stories by UP and AP exposed the informal discussions in Wash re copper price resulting in fall price in Europe and inability sell Chile's 20 percent. Party leaders along with common demagogues seized on this as an excuse attack copper agrt and the Amer Govt. Inability Chile dispose its copper at price expected together with closing copper mines strike had created a grave economic, social, and political situation four months before an election.

Strike accentuated the gen danger. The Pres resents statement from Wash that Govt here made no attempt carry out its promise of better exchange rates for US. He appreciates cos cannot absorb the increased cost due wage increase demanded and he prepared a decree which was declared illegal by the Comptroller who has practically dictatorial power. The decree cld have been put thru by being signed by all the Mins but this wld have been interpreted by demagogues as assumption dictatorial power and as making it possible for Pres override not only Comptroller but Congress. This in midst campaign involving democracy Chil wld have been perilous. He says even had decree stood, agitation wld have continued because of price copper and failure profitably dispose of its twenty percent in European markets. Result too wld have been violent attacks on US Govt.

He says Nieto to see Truman Tues or Wed. He requests Truman after conf with Nieto say in press conf or otherwise that he is willing open or resume negots. He put this as a direct request. He wld thereupon announce his desire negotiate. This he says wld relieve unreasonable pressure on his Govt and disarm those seeking a pretext agitate against US.

He then said with emphasis that never at any time had he thought such a thing as withholding from US all the copper we need for defense and other vital purpose.

He had been informed that our Govt has suspended all priorities for Fomento including machinery essential to needs of Endesa. He did not know that this suspension applies gen and not to Chil only and is due steel strike. Accepting the misinterpretation of his informant he is trying keep this secret here since publicity wld create an ugly reaction against US.

His manner was conciliatory, most friendly. He unquestionably is right as to critical situation financial, social, and political when enemies democratic regime are very active. Am convinced govt exerting itself keep down criticism Amer Govt.

Bowers

825.2544/5–852: Telegram

The Secretary of State to the Embassy in Chile[1]

SECRET WASHINGTON, May 8, 1952—7:19 p. m.

543. No distribution. For Amb. from Miller. Chil Amb saw Pres Truman this afternoon with Miller present. Nieto explained briefly background of cancellation agreement stressing unsatis sales 20 percent quota, bitter opposition to Gonzalez Videla, unstable econ situation and unpopularity copper agreement among all circles in Chile. He handed Pres memo[2] which Nieto told Miller he had prepared on telephonic instrs Gonzalez Videla and which Nieto had admitted to Miller previously was extremely harsh and unfair. Memo contains virtual ultimatum that we buy copper at between 33 and 34 cents pound although it does open door to our purchase of all Chil production.

Pres Truman replied that Chile's action had come as great surprise; that he had thought Chile our best friend in LA; and that he considered Gonzalez Videla his friend. He said that there had been no need for Chile denounce agreement since in any case it expired today under gentlemen's agreement. Furthermore we were always ready work out any agreement with Chile that was in interests of two peoples. However, although he was willing order GSA pay fair price for copper, Pres said in strongest terms that he did not like to be coerced. He said in previous cases where fon suppliers had tried hold us up for high prices, such as case of rubber, fon suppliers had eventually come to disaster. We did not want any such thing happen to such good friend as Chile. He felt Chile's action coupled with its failure to accord agreed treatment US cos re tax and exchange rates amounted virtually to confiscation and gravely prejudiced our vital investments in Venez oil and iron and other positions. He was surprised that at time when US was making great sacrifices prevent third World War at cost many US lives in Korea Chile cld not remain content with substantial subsidy for their copper over price paid to US domestic producers. He said his admin had been willing throughout our informal negots to listen to any fair proposal from Chile but that none had ever been put forward and we had been completely taken aback by Chile's sudden action last Fri. He expressed astonishment that Pres of US shld be handed document such as memo Nieto gave him containing unfair inferences and constituting virtual ultimatum. He repeated that he was willing instr his assistants work our fair deal with Chile but, if negots were to be conducted on basis of ultimatum from Chile, Chile wld have to resort to its fate in free market.

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[1] Drafted and signed by Assistant Secretary Miller.

[2] Not printed.

After meeting Miller accompanied Nieto back his Emb where he expressed gratification that Pres had listened so long and carefully and had taken time to read and comment on memo. He expressed to Miller complete agreement with our position and said Chile had blundered in its handling copper starting with Novoa's unrealistic fon exchange budget. He showed me numerous exchanges teles with FonOff in which his requests for instrs were always precise and explicit whereas FonOff messages were vague and contradictory. In tele sent just prior termination agreement, Nieto had asked that Muller be sent back to Washington to handle copper matters. He feels incompetent handle them.

We were relieved that Gonzalez Videla instructed Central Bank not to set floor price which action wld gravely prejudice possibility quick solution this matter. We will probably have meeting here Fri to determine course action which may take form of inviting Chiles begin discussions.

Foregoing report re Pres conversation with Nieto is primarily forurinfo and Nieto making his own report to FonOff concurrently. You will of course treat with extreme confidence Nieto's views re his Govt's actions. Since this tele is marked no distribution pls do not refer to it by number in any reply.

ACHESON

825.2542/5–2052

Memorandum of Conversation, by Milton Barall of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] May 20, 1952.

Subject: Chile Informed of US Decision on Copper

Participants: Ambassador Félix Nieto del Río, Embassy of Chile
Mario Rodríguez, Counselor, Embassy of Chile
Jorge Burr, Counselor, Embassy of Chile
Edward G. Miller, Jr., Assistant Secretary
Winthrop Brown, Director, OMP
Milton Barall, OSA

Mr. Miller handed the Ambassador the Department's note of this date (copy attached)[1] informing the Chilean Government that the "United States proposes to establish arrangements under which private United States firms will be free to buy copper and copper concentrates abroad at prices to be determined between them and the seller." Mr. Miller went on to explain that this decision was taken only after almost continuous discussions among United States Government agencies concerned. He explained that this is the only action the United States was able to take to meet all of Chile's objections to the copper agreement of 1951, as brought out in the conversations of May 2 and in previous meetings. This action does away with the two-price system; it breaks the 80–20 percent distribution pattern and permits Chile to exercise control over the entire production of the large American-owned mines; it does away with the 27½ cent price formerly applied to Chilean copper sold in the United States despite the fact that the US ceiling price of 24½ cents is being retained on domestic production; and it eliminates competition in the European market from sales by US firms of copper produced in Chile.

Mr. Miller then took up the question of publicity which should be given to the United States decision. He referred to the message which the President of Chile will make on May 21[2] at the opening of the regular session of Congress and said that the United States had made all haste to meet this deadline and to permit the President to make an appropriate announcement. The Ambassador said that the President's speech was already printed but that he might, nevertheless, wish to make a statement with respect to copper. Mr. Miller suggested that the President might wish to send a supplemental message to Congress.

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[1] Attachment is not printed.

[2] President González Videla's address is reported in despatches 1364 and 1365, from Santiago, dated May 21, 1952, not printed (725.00 W/5–2152).

Mr. Miller continued by pointing out that this action on the part of the United States puts grave responsibility on Chile not to undermine its own position in the world market. He said he had heard rumors to the effect that a price of 35½ cents per pound had been fixed today by the Central Bank. He expressed the hope that Chile's price will not be set so high since, in the long run, a price which is too high might be disastrous for Chile.

The Ambassador asked if the Department's note was to be considered as a counter proposition to Chile's note of May 7, 1952.[3] Mr. Miller replied that it was not; that it was a US decision and that DPA would have to make an announcement soon to the public. The Ambassador said he understands it is a US decision but at the same time he considers it a proposition which Chile can discuss. Mr. Miller explained that this was unilateral action on the part of the United States in response to the unilateral action taken by Chile but that, of course, we can review our position at any time and, in that sense only, it may be considered a proposition. He said this was the best feature of the US decision because it did not put us in an inflexible position. He said that negotiation of a new price would be a long process and would necessarily involve the United States as a government, whereas the present action now leaves the matter of price to be decided between the buyer and seller.

Mr. Miller expressed the hope that Chile will be able to achieve increased production by passing the tax and exchange law which would permit the US producers to bring down the cost of production and lower unit costs to enable Chile to continue its sales when a competitive market in copper returns. He said he hoped the Central Bank will not set an inflexible minimum price as was done in the sale of the 20 percent quota and which produced difficulties when the price started to fall. He said it would be best for Chile to act as a normal seller, study the market, and set an appropriate price each month.

The Ambassador asked Mr. Brown if under these conditions the United States could absorb the 80 percent previously bought from Chile. Mr. Brown answered that it depends on the price. American consumers would like to buy more than 80 percent if the price permits. He explained that under our new regulations the consumer will be free to purchase more than the 80 percent previously allocated. Mr. Miller added that this, too, is up to Chile. We would like to buy more and have now provided incentives, by means of adjustment in ceiling prices, whereby the US buyers can purchase copper and copper concentrates abroad. Mr. Brown explained how brass and wire mills will be able to reflect a high proportion of the increased cost in their ceiling prices, whereas until now they had had to absorb the higher cost of Chilean copper. He said the ultimate test of how much copper can be sold in the United States will be determined by what the ultimate consumer is willing to pay for products manufactured from copper. This level will now be fixed by the law of supply and demand and not by the United States Government. He said we had considered all possible alternatives and came to the conclusion that it was best to get the problem of copper out of government channels and let consumers and sellers fix ultimate prices. Copper will move according to the requirements of those people using the metal, not on the decision of the US Government. This meets Chile's objections to the copper agreement of 1951. Mr. Brown reiterated the points made by Mr. Miller on this subject and added that it also makes it possible for Chile to participate fully in the IMC, if it wishes, since it no longer needs to reserve its 20 percent for higher priced sales.

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[3] Reference is to Chilean Embassy note no. 698/102 formally abrogating certain provisions of the Copper Agreement of 1951; it is in file 825.2542/5-752.

The Ambassador asked about the United States stockpile. Mr. Miller replied the United States would withdraw from the stockpile the amount of copper necessary to make up for the loss caused by the strike in the Anaconda mines and Chile's embargo on copper shipments. He said that this would be announced by the US Government later on. He explained very carefully that the stockpile is not being used in pursuance of a tough policy toward Chile. The United States is acting in an honorable way with Chile and using the stockpile only to make up for deficiencies. The Ambassador asked if the stockpile would be used for sales in competition with Chilean copper. Mr. Brown replied that it would be used for emergencies only and not for competition since we do not wish to withdraw from the stockpile but rather to add to it and preserve it for possible emergencies, such as war. On the contrary, the stockpile might come in as an additional purchaser if the price is reasonable. He said we especially wished to make this explanation so that Chile will fully understand our temporary withdrawals to meet the existing shortage.

Mr. Miller explained that the decision on US action was taken by President Truman, with Dr. Steelman presiding at the meetings, and over the strong objections of our Price Stabilizer.[4] He pointed out that this was a grave decision for the United States and Chile should realize the importance of this step in this country at a time when price increases are being denied to US industries.

The Ambassador said he would explain the US decision to President González over the telephone at 5:00 p.m. today. He said it was his own feeling that this is a step forward and expressed the hope that the President will understand the problem fully. He seemed somewhat concerned that US action did not set the price of Chilean copper and stated that prices mentioned in previous discussions were only asking prices. Mr. Brown reiterated that Chile must be cautious in exercising the full control it has now assumed. He added that we should not like to have a Johnson Report[5] on copper such as we had on tin because that would generate irresistible pressures in the United States.

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[4] Ellis G. Arnall.

Mr. Miller pointed out strongly that the anti-US propaganda in Chile can have serious effects. He said this was a very hard decision for a lot of people in the United States to swallow; the American producers who are still frozen at 24½ cents; the OPS and EPS; the brass and wire mills which have to raise prices; DPA which has to change its allocation system; and the US public which is opposed to further inflation. Mr. Rodríguez requested clarification of the last phrase in the note "The Chilean Government will not offer copper to third countries at prices lower than prices offered to consumers in the United States". It was explained that this was inserted to avoid positive discrimination against US consumers and that, as a matter of policy, Chile should sell to all buyers at the same price.

The meeting was terminated with a discussion on what action should be taken with respect to publicity. It was agreed to let the President of Chile make the announcement tomorrow if he wishes, but that the United States must know when he will make a statement, and perhaps the contents, so that a parallel announcement can be made to the US public. This is also necessary so that OPS can issue its order putting the new arrangement into effect. It was also agreed to avoid describing this action as "decontrol" to the press but rather to describe it as an adjustment in ceiling price, which it is. Mr. Brown said that the OPS order will be issued effective either the 16th or the 23rd of June.

The Ambassador promised to call Mr. Barall at home this evening to inform him of the time of the President's announcement. The Ambassador remarked to Mr. Rodríguez that he was very much impressed by the speed and force exhibited by the United States in arriving at a major decision of this nature.

(*Note:* The Ambassador phoned Mr. Barall later this evening to inform him that President González expected to make an announcement on the new copper decision at 5:00 p.m., May 21. The President specifically requested that the United States issue no release before this time. The Ambassador expressed the belief that the President's reaction would be "generally favorable" and that he would express general approval of US action.)

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[5] Reference is to U.S. Senate, Preparedness Subcommittee of the Committee on Armed Services, Sixth Report, *Tin 1951* (commonly referred to as the Johnson Report, after Senator Lyndon B. Johnson, Chairman of the Preparedness Subcommittee), 82d Cong., 1st sess.

Miller files, lot 53 D 26, "Chile"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Chile (Bowers)

[Extract][1]

SECRET [WASHINGTON,] May 23, 1952.

DEAR AMBASSADOR BOWERS:

. . . .

I think that the decision that we have taken in this Government is the correct one and, in fact, I think that it was the only one that was open to us. For us to have meekly negotiated a new "agreement" with the gun at our heads (or as President Truman put it to Nieto, with our feet being held to the fire) would have been just as miserable and craven an act as that of Gonzalez Videla in caving in to the communists. Furthermore, we would have been the victims of (1) attacks from all interested parties in this country for participating in the fixing of a higher price for copper, and (2) continued dissatisfaction with the agreement on the part of the Chileans since there would probably continue to be a world market premium over any new price and (3) disillusionment on the part of the Chileans when the higher price contract would eventually terminate. In other words as the Embassy so clearly grasped in its telegram[2] last week, it was incumbent on us to get off the hook now and to get off it not only in regard to price but in regard to the relations between the Government of Chile and the copper companies. No doubt the Chileans now feel that they have scored a great victory but even already the sober-minded ones like Nieto and Burr are clearly worried. Nieto has several times asked me in the two meetings I have had with him this week whether or not our note was a "*proposición*" or a "*negociación*". I have told him that we had taken a unilateral decision which seemed to us to be the only act which we could take consequent upon Chile's unilateral decision of May 2. He got the point perfectly and yesterday said that our decision was "*muy inteligente*".

. . . .

I am glad that you have been so concerned over the anti-Yankee attacks which have become the fashion in Chile and that you took the time to discuss this frankly with the Foreign Minister[3] in connection with the military agreement. Yesterday after our meeting on the copper agreement, I asked the Ambassador to stay on alone and I read him most of my letter to you of January 7[4] in which I listed the things that we had done for Chile and the things that they had failed to do for us. I read him verbatim the last two paragraphs in which I had expressed the fear that the Chilean Government would eventually become the victim of its own anti-Yankee propaganda (or of its own failure to defend us in their negotiations with us) and that the consequence would be that they would get in a vicious circle and would have to take action in regard to the copper agreement which is ostensibly anti-Yankee but is really against Chile's own interests.

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[1] The deleted portions of this letter contain either personal remarks or references to the tin situation in Bolivia.

[2] Not identified.

[3] Eduardo Yrrázaval Concha.

[4] For text, see p. 666.

In any case we will try not to let this hurt our relations with Chile too much and you will note that all of us have refrained from any provocative public statements. In fact I thought that all of the statements which have been made up here have been models of restraint and correctness.

. . . .

As I said above we will not impose sanctions on Chile and after due deliberation I have decided to tell the International Bank to go ahead with the cellulose loan.[5] . . . As to the two coal projects, there are still the usual technical difficulties and studies. We are also going ahead with the priority for a large crane for Huachipato since this had already been scheduled but I am afraid that Roberto Vergara[6] is going to run into pretty rough weather when he gets here looking for additional priorities.

In my conversations with Nieto I have strongly stressed the importance of Chile behaving itself in regard to copper sales and the need for them to get ahead now with fair treatment to the companies in regard to exchange and taxes. I have also expressed concern over Gonzalez Videla's proposal in his speech on Wednesday[7] about the creation of a copper sales corporation. This seems to me the height of ingratitude after what the companies have done to develop markets for Chilean copper in Europe and elsewhere.

I also hope that our action on copper will contribute to a more favorable *ambiente* for the military agreement. Even though your more recent reports have been more hopeful, I shall keep my fingers crossed until it is through.

. . . .

With kindest regards,
Sincerely yours,
EDWARD G. MILLER, JR.

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[5] On Sept. 10, 1953, the International Bank for Reconstruction and Development (IBRD) authorized a loan of $20 million to the Corporación de Fomento de la Producción and the Compañia Manufacturera de Papeles y Cartones, S. A., to help in financing the construction of a paper mill and a pulp mill in Chile. For additional information, see International Bank for Reconstruction and Development, *Supplement to the Eighth Annual Report* (Washington, 1954), pp. 4–5.

[6] General Manager of the Huachipato Steel Mill in Chile.

[7] Reference is to President González Videla's speech to the Chilean Congress on May 21, 1952.

Miller files, lot 53 D 26, "Chile"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Chile (Bowers)

SECRET [WASHINGTON,] September 9, 1952.

DEAR AMBASSADOR BOWERS: Naturally the results of the Chilean election have come as a severe blow to us. I say this even though you had prepared us for the shock through your brilliantly accurate reporting over the months preceding the election. In reporting to the Secretary's staff meeting this morning[1] about the Chilean situation, I referred to the fact that you had called the shots on the nose. In fact you knew the score better than many Chileans with whom I have discussed the elections. I want to congratulate you on your objectivity knowing as I do how distasteful Ibañez' candidacy has been to you and how more distasteful it will be living with this new situation that we have to face in Chile. Needless to say the crowing that is emanating from Buenos Aires is sickening.

The press here is already expressing alarm about the situation in Chile and the *Washington Post* has gone so far as to imply that this is due to our neglect of Latin American affairs. This of course is representative of what I consider to be an alarming tendency on the part of our press here to consider the Department of State not merely responsible for conducting our relations with other countries but of guaranteeing good conditions in other countries. Actually I think that we have done more for Chile than for any other country in Latin America, at least proportionately. Our help to them on loans, on securing priorities, on the transfer of the cruisers, and the conclusion of the military agreement, under the Point IV program, and in relation to copper has been exemplary, and in addition we went out of our way to give Chile's democracy a pat on the back by making Gonzalez Videla one of the two Presidents from Latin America to be brought up to the United States in the last three years. The only thing we did not do was force Matte and Alfonso to get together on a single candidacy, and I suppose someone with 20/20 hindsight will be telling us how we could have done that.

One of the saddest aspects of the Ibañez victory is its close parallel with the situation in Ecuador. There Velasco Ibarra without any party organization and after many years' absence from the country swept through to an overwhelming victory against three moderate candidates simply through demagogic appeal. While Velasco did not go so far in attacking the United States, his irresponsibility in appealing to the discontent was along the same lines as that of Ibañez. In many respects also the pattern of victory is similar to that of Vargas' election two years ago where he won against a divided moderate opposition. In all three cases you have demagogues who had been thrown out of office before, coming back without any party organization and scoring a tremendous victory simply through a personal appeal to the discontent. In the case of Vargas, he has fortunately surrounded himself by some good men and has been much more moderate (possibly because he is a Brazilian). But one adverse effect of the personalism of his candidacy is that he has no solid party strength to work with in the Congress, a fact which makes for ineffective government. In the case of Velasco Ibarra, the new administration has in its first week turned viciously on President Galo Plaza, completely disregarding that the latter had guaranteed free elections and pacifically turned over the power to the new group. Velasco has ruthlessly dismissed all the top Army officers, all the top men in government, and a substantial part of the diplomatic corps. These actions, particularly as they affect the Army, are typical of *personalismo* at its worst and constitute a lamentable barrier to the development of the constitutional forms which are so badly needed in Latin America. Of course in Bolivia and Argentina we have seen the wholesale dismissal of useful men from government office.

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[1] The notes of the referenced staff meeting, designated SM N–65, and dated Sept. 9, 1952, are contained in Secretary's Staff Meetings, lot 63 D 75.

I have today signed a telegram[2] to you in reply to one[3] which came in over the weekend. We are of course distressed over Lira's[4] statement although it seems to conflict in some respects with what Ibañez told the American newspapermen. The most serious thing is the threat to nationalize the copper mines since this would constitute the gravest invasion of American property rights since the Mexican oil expropriations in 1937.[5] In view of the changed climate of opinion in this country since then and the world-wide implications that the nationalization of copper would have, it would have the gravest kind of repercussions in this country, not only towards Chile, but towards the administration since we would be accused of having followed the same kind of policy towards Chile as we allegedly have had towards China. The termination of the military agreement would be less of a blow to us, except that our prestige would suffer as in the case of the collapse of our bilateral military negotiations with Mexico. The reestablishment of diplomatic relations with Russia and her satellites and the repeal of the law for the defense of democracy would be matters exclusively for Chile to determine but they would, of course, be unfortunate and they would likewise have bad repercussions in the press here.

In response to your question as to whether you should seek Ibañez out, we all think here in the Department that it would be far better for you to let any initiative come from Ibañez or anyone else in his entourage who wants to discuss matters with us. In the first place, and strictly technically, Ibañez has not yet been confirmed by the Chilean congress and, in the second place, he is not yet President. However tactically it would seem in our advantage for them to come to us and not to show undue alarm. Our feeling would be to take the attitude that matters will develop normally and in the meantime we up here will try to refrain scrupulously from giving information even for background on Chilean developments so as to avoid getting them frozen into any undesirable positions as a result of premature speculation emanating from Washington. If and when an opportunity should present itself, I think it would be good to review what we have done for Chile in the last twelve years or more as indicating our sincere interest in the welfare of the Chilean people and the ridiculousness of the claims of our enemies that we are imperialistic. With regard to the military agreement, you could take exactly the same line that you took so effectively with Yrarrázaval[6] when you made the point that it was entirely up to Chile and that Chile obviously has more to gain than to lose from the agreement. No doubt Perón has made great efforts to get Ibáñez turned against the agreement. The reason for this is that Perón was not included in any agreement, a decision which was reached by us as a result of Perón's attacks not only on us but on the Rio Treaty[7] and the OAS and his repeated statements to the effect that he would not join in hemisphere defense efforts. With regard to reestablishment of diplomatic relations with Russia, the situation is somewhat complicated by the fact that we still have relations with them but there would be no reason why you should not point out that a Soviet diplomatic establishment is nothing more than a center of espionage and refer to the recent action on the part of Cuba and Venezuela in closing them down. The main difficulty is, of course, the threat to the nationalization of copper. It would be well on this point to point to the very fair treatment that we have accorded to Chile including the $25 million balance of payments loan in October 1949 when the price of copper had dropped to 16 cents; our strenuous and successful efforts to get the copper tax eliminated; our very fair agreement of 1951 which gave Chilean producers 3 cents a pound more than domestic producers; and finally our action in what amounted to decontrolling copper after Chile denounced the agreement. You could point out the tremendous capital investment of the American copper companies in Chile; the technical and managerial skills which they have brought to that country; the tremendous investment programs which are now underway and will have the effect of devising new methods for mining copper and thus keep these industries alive for the benefit of the Chilean economy and the Chilean workers who are employed in the copper industry. Above all you should stress the fact that while Chile has complete sovereign dominion over its national territory, we will expect any act of expropriation to be met by prompt, adequate and effective compensation. The investment of the copper companies is so large that the obligation on the part of the Chileans to indemnify the companies added to their present privately held dollar debt and their obligations to the Export-Import Bank, International Bank, etc. will obviously add up to a total debt so staggering as to be far beyond Chile's capacity to pay. Only one of the immediate consequences of this will be the ending of all lending activities to Chile for any purpose.

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[2] Reference is to Department of State telegram 79, to Santiago, dated Sept. 9, 1952, in which Ambassador Bowers was instructed not to request an interview with President-elect Ibáñez, but also not to refuse a meeting if offered by the President-elect or one of his intermediaries (725.00/9–652).

[3] Apparent reference to telegram 79, from Santiago, dated Sept. 6, 1952, not printed (725.00/9–652).

[4] Javier Lira, a member of the Chilean Chamber of Deputies and Secretary General of President-elect Ibáñez' Presidential campaign.

[5] For documentation on this subject, see *Foreign Relations*, 1938, vol. v, pp. 720 ff.

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[6] Chilean Foreign Minister Yrarrázaval Concha.

[7] Reference is to the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948; for text, see TIAS No. 1838, or 62 Stat. (pt. 2) 1681.

You have a very difficult problem ahead but we have every confidence that you will handle it with skill and patience and with the interests of the United States always uppermost in your mind. I cannot help hoping that even though the prospect is a dark one, your great personal prestige and your reputation for complete integrity and for friendship with Chile will help to prevent disaster from overtaking that great country.

[Here follow personal comments.]

With kindest regards,

Sincerely yours, EDWARD G. MILLER, JR.

P.S. If an opportunity should present itself to talk of Aníbal Jara, you might, if you think it wise, refer to my own personal friendship with him and my gratification over the fact that he has apparently returned to a position where he can lend his great talents to the maintenance of good relations between our two countries.

P.P.S. In regard to Lira's announcement about the prospective termination of the military agreement, this raises the immediate question of whether the Department of Defense should continue to process the equipment to be sent down under the agreement. The Department of Defense has asked us whether they should take the various steps which have to be taken in the way of placing orders, etc., before any shipments could leave this country. We have told them for the time being that it is premature for us to make any decision on this point. Do you believe that any useful purpose could be served in discussing this problem some time with President Gonzalez Videla or to have our own military discuss it with the Chilean military? Of course, if the agreement is eventually to be terminated after the new administration comes into power, we could save ourselves a lot of trouble at this end by immediately holding up any further processing of the equipment.

EGM

725.00/9-2652: Telegram

The Ambassador in Chile (Bowers) to the Department of State

SECRET SANTIAGO, September 26, 1952—10 p. m.

120. Meeting this noon Hall's[1] house with Torreblanca[2] exclusive and only responsible liaison of Ibanez with present admin Stewart[3] and

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[1] Carlos C. Hall, Counselor of Embassy at Santiago.

[2] Edecio Torreblanca; appointed Chilean Minister of Economy and Commerce, October 1952.

[3] Charles Allan Stewart, First Secretary of the Embassy at Santiago.

Tobias Barros[4] former Nazi Chil Amb Berlin now in inner Ibanista circle and evidently grown in stature and understanding.

Went over all problems affecting our countries beginning with anti-Yanqui press campaign copying Peronista line playing into Commie plans and bound eventually to completely sour our relations. Understanding was found with promise correction would be made once Ibanez certified Oct 24 by Cong as elected. Went so far to offer cut finan aid to Ibanista sheets recently attacking Amb Bowers personally thus shutting them up but Hall said "we are neither in Bogota nor Buenos Aires we do not believe in suppressing newspapers".

Received assurance there would be no nationalization mines.

Likewise definitely there would be no resumption relations with USSR.

It was carefully explained without pressuring what trade with Iron Curtain countries in strategic materials would mean Chil in view our legislation. They admitted our stand was logical and that as Hall supposed this had not occurred to Ibanez but we awaiting assurance this point. Present and possible future aid was detailed to them.

Finally came to military agreement explained that contrary to Ibanez belief this had not been forced on Chil since more to latters benefit than ours. We wished only know definite intent incoming admin since shipment now being assembled. It was made clear that we did not intend take a beating for six more months pending Congress elections if Chil and particularly its armed forces really wanted this help. Chils were told in view time element we would like have this assurance from Ibanez himself.

Our impression is that if coming admin realizes that it needs us more than we need it that perhaps after today's talk it will give some thought that in view tremendous electoral victory it no longer needs beat admittedly used anti-Yanqui drum. Torreblanca Barros admitted unfairness vicious personal attacks their press on Amb Bowers which they claimed unaware of. They intend take advantage military agreement and other assistance they are desperately in need of and we may grant. Emb personnel at meeting convinced sincerity Ibanistas present.

Recommend plans go forward for Dec 15 MAAG shipment which at this time looks like best risk rather than delay in our commitments.

BOWERS

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[4] Tobías Barros Ortiz.

725.00/1-1353

Memorandum by Milton Barall of the Office of South American Affairs to the Director of That Office (Atwood)

SECRET [WASHINGTON,] January 13, 1953.

Subject: The Situation in Chile

1. *Political Structure and Orientation of Government*

Chile has a democratic form of government under the Constitution of 1925 and, since 1931, all Chiefs of State have been elected by the people. A Chamber of Deputies and a Senate make the laws which are then promulgated by Presidential decree. In actual practice, the President and his Cabinet form a strong executive branch which directs the centralized activities of the government. With a multiplicity of political parties, and with no majority party, the Cabinet is generally formed by coalition to give the President a working majority in Congress. President Ibañez took office in November 1952 after receiving 47% of the popular vote in a 4-way race. The present lame-duck Congress will be replaced after Congressional elections in March, 1953. Ibañez's campaign was virulently anti-U.S. but he has tried to curb the pro-Peron, pro-Nazi and pro-Commie factions among his supporters. The present Cabinet will probably not last long, but it cannot be described as friendly to the U.S. The Minister of Interior[1] is . . . and anti-U.S. He is in a key position with respect to Communism, which has been as successful in Chile as anywhere in South America. The Foreign Minister[2] . . . is anti-U.S. and pro-Peron. His foreign policy, though professing not to be anti-U.S., calls for the creation of a Latin-American economic bloc to compel the U.S. to pay high prices for raw materials. Alliance with other underdeveloped countries, it is argued, will reduce Chile's economic dependence on the U.S. Historically, Chile generally has been friendly toward the U.S. and if Ibañez can control the forces he set in motion, his regime may very well continue in this tradition.

2. *Economy*

Though more people are engaged in agriculture than in any other occupation, Chile has switched from an exporter to a large net importer of foods, while it has been building up its industry. The bulk of government revenues and foreign currency exchange is derived from the export of minerals, chiefly copper, of which Chile has the world's largest reserves. Chile's monopoly on fertilizer was broken by the development of synthetics, though the production and export of nitrate and iodine is the second most important factor in the country's economy and foreign trade. With the assistance of Eximbank loans and U.S. technicians, Chile has a steel mill, using domestic iron and coal. Large iron deposits are being developed for the export of ores to the U.S. The Government's Fomento Corporation has helped develop the manufacture of consumer products such as textiles, leather, pharmaceuticals, cement, glass, tires, but the government's meddling in private industry and its restrictive practices have also helped produce a dangerous and continuous inflation, about 30% in 1952. This has led to great curtailment of imports from the U.S. Chile is not now economically sound and it faces a major crisis in 1953 because of its dependence on the present artificially high price of copper for government funds and for economic development. The long-range solution lies in reduced government controls, increased agricultural and industrial production, diversification of the economy, and an improved communications network. Chile has the basic resources and manpower for the establishment of a prosperous economy and a much higher standard of living. Chile has no Trade Agreement with the U.S. but is a member of GATT.[3]

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[1] Guillermo del Pedegral Herrera.

[2] Arturo Olavarría Bravo.

3. *Strategic Military Importance*

Chile's long coastline and its control over the Straits of Magellan give it strategic military importance, especially if the Panama Canal should be knocked out and the Drake Passage becomes our means of communication between the Atlantic and Pacific Oceans. Since its acquisition of 2 cruisers from the U.S. in 1951, Chile has the strongest navy on the West Coast and by signing a military pact with the U.S., in 1952, has undertaken some responsibility in the protection of the hemisphere. Under agreements running until 1954, the U.S. has Naval[4] and Air Missions[5] in Chile to help train its armed forces.

4. *Major Problems dealt with in 1952 which Furthered U.S. Objectives*

a. U.S. initiative

(1) In response to Chile's denunciation of the copper agreement in May of this year the U.S. amended its price control regulations on imported copper. This has permitted the continuation of sales of large quantities of copper in the U.S. The high prices helped eliminate sales to the iron-curtain countries.

(2) Interested Executive agencies agreed unanimously to seek continued suspension of the 2 cents per pound copper tax. The present suspension terminates February 15, 1953.

(3) The distribution of Chilean copper was retained under the IMC by the favorable price policy adopted by the U.S.

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[3] Reference is to the General Agreement on Tariffs and Trade, concluded at Geneva, Oct. 30, 1947, and entered into force for the United States, Jan. 1, 1948; for text, see TIAS No. 1700, or 61 Stat. (pts. 5 and 6).

[4] For text of the Agreement providing for the services of a U.S. Naval Mission to Chile, signed at Washington, Feb. 15, 1951, and entered into force on the same date, see TIAS No. 2202, or 2 UST 535.

[5] For text of the Agreement providing for the services of a U.S. Air Force Mission to Chile, signed at Washington, Feb. 15, 1951, and entered into force on the same date, see TIAS No. 2201, or 2 UST 522.

(4) A new . . . program was put into effect to help counteract virulent anti-U.S. propaganda.

(5) Chile signed the bilateral military agreement which was then ratified by its Congress. The U.S. was subjected to much vilification because of this agreement, which became one of the leading issues in the presidential election. After a short delay to see if Ibañez would denounce the agreement, the U.S. started the shipment of supplies and will live up to its responsibilities. Ibañez and his Cabinet have agreed to honor their commitments.

(6) U.S. maintained a friendly and favorable policy on requirements for Chile, especially for the Huachipato steel mill.

b. Chilean Initiative

(1) Ibañez was elected President with a 47% plurality. The following anti-U.S. issues were raised during the campaign:

- (a) Denunciation of the military pact
- (b) Reestablishment of diplomatic and commercial relations with Communist countries
- (c) A possible "third position", especially economically
- (d) Repeal of the Law for the Defense of Democracy, which curbs Communists
- (e) Possible eventual nationalization of copper mines.

Ibañez won with the support of ex-Nazis and Commie sympathizers. By sending a strong delegation, headed by Mrs. Roosevelt,[6] to Ibañez' inauguration,[7] and by maintaining a friendly but correct and "hands-off" attitude toward the new government, the U.S. has helped stave off the anti-U.S. actions which were campaign issues. There has been no further deterioration in U.S.–Chile relations and friendly contacts have been established with Ibañez himself.

(2) Ex-President Gonzalez Videla put pressure on the U.S. copper companies to contribute to the campaign fund to defeat Ibañez. Fortunately, the State Department prevented this by refusing to relax its prohibition on this type of activity.[8]

(3) Anglo-Lautaro and Cia Salitrera de Antofagasta y Tarapáca have requested loans from the Eximbank to expand production and improve methods. A new U.S. loan policy toward Chile is still to be formulated but we have agreed to approve an IBRD loan for a chemical pulp and paper mill and the Eximbank loan to de Castro's nitrate company without further delay for political reasons.

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[6] Mrs. Eleanor Roosevelt.

[7] President Ibáñez was inaugurated on Nov. 3, 1952.

[8] In telegram 53, from Santiago, dated Aug. 14, 1952, Ambassador Bowers reported that the Chilean Government apparently planned to draw on U.S. companies for contributions to the presidential campaigns of Senator Matte and/or Señor Alfonso, and he stated the following: "Aside from fact this is a squeeze, am convinced it would be dangerous remove ban [on campaign contributions], unwise for our people become involved in election and certainly unwise for our govt become involved." (725.00/8–1452)

The Department's telegram 52, to Santiago, dated Aug. 15, 1952, reads in part as follows: "We concur that it is undesirable for Amer owned concerns to become involved in internal affairs other LA countries by making financial contribution to campaigns of particular candidates . . . . We assume Amer cos and Chile Govt already aware of this." (725.00/8–1452)

5. *Major Problems which did not Develop Successfully in 1952*

a. U.S. initiative

(1) Chile agreed to consult under GATT on import restrictions but consultation will not take place until after Chile's consultation with the IMF in January 1953. Embassy's efforts in Santiago to remove restrictions proved to be fruitless.

(2) No Point IV Education Agreement was signed because the political situation has kept Chile from adopting a firm position. The U.S. has now given Chile the initiative and if Chile wants an agreement it will have to approach us. Not much progress was made in improving agriculture.

(3) Chile did nothing to implement the provisions of the copper agreement of 1951 with respect to increased production.

(4) Chile failed to act on the passage of a new tax and exchange law for the copper companies.

(5) No improvement was achieved in securing firm support from Chile for U.S. objectives in the UN.

(6) No improvement was noted in the attitude of Chilean labor with respect to political strikes against U.S. companies.

b. Chilean initiative

Chile has asked for assistance to small and medium copper mines. So far the U.S. has not actively supported this. The problem has been referred to DMPA regional office in Lima in order to delay action until the course of the new government is clearer.

6. *Status of Pending Problems* (Urgent when marked with asterisks)

****a. The issue of the two-cent tax on copper is a great potential danger to our relations with Chile. The Executive agencies are actively seeking continued suspension and Representatives Patterson[9] of Connecticut and Reed[10] of New York submitted bills for suspension until June 30, 1954. We should exert pressure to meet the February 15 deadline.

b. Chile has requested or is likely to request large loans for 1953, for the Chilean Railways, nitrate production, aid to small and medium copper miners, coal production, irrigation and agriculture, and others. Quite apart from political considerations, there is a real question as to Chile's ability to absorb and service additional debts. An overall loan policy toward Chile will have to be formulated.

c. Anti-U.S. sentiment and propaganda is still a problem. We will continue efforts to bring our case to the people and explain away distortions and misconceptions. We must try to keep the government and the people on our side, with particular emphasis on Ibanez, so that he can keep his extremist supporters in line.

d. Intersessional GATT consultations will take place after January 1953 to try to ameliorate Chile's discrimination against imports from the U.S.

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[9] James T. Patterson.

[10] Daniel A. Reed.

e. Over 250,000 tons of copper have been sold in the U.S. at the 35½ cents price. A serious internal problem will arise in Chile if the world price falls, (as is likely if the U.S. removes controls) for its economy and budget are geared to continued high receipts.

f. The possible shipment of strategic supplies to Communist countries will continue as a problem. Chile has agreed to some control measures and has not knowingly sold behind the Iron Curtain, but a change in the price of copper or in Chile's political orientation might lead to deliberate sales.

g. Chile's foreign policy and strong nationalist tendencies will bear close watching. There is an incipient movement toward emotional and irrational nationalism such as we have seen in Iran and Bolivia.

h. Chile is the source of almost all copper imported into the U.S. (40% at the present time). We should make continued efforts to secure the cooperation of the Chilean Government for protection of the Kennecott and Anaconda plants in accordance with a NSC directive.[11]

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[11] Reference uncertain.

825.2542/6–1553

Memorandum by the Director of the Office of South American Affairs (Atwood) to the Assistant Secretary of State for Inter-American Affairs (Cabot)[1]

CONFIDENTIAL [WASHINGTON,] June 15, 1953.

Subject: The Copper Situation in Chile and the Need for United States Loans

When Chile denounced its Bilateral Copper Agreement with the United States in May, 1952, Mr. Miller predicted to the late Ambassador Nieto that Chile's action was against its own interests and would make her a residual supplier of copper at a time when production was increasing in other countries and substitutes for copper were being developed. Mr. Miller's prediction has now been borne out. Chile is the highest-price supplier in the world and a back-log of unsold copper has already been built up in the Kennecott mine. In July, similar stocks will accumulate in the Anaconda mines because of Chile's inflexible, non-competitive price.

On May 30, 1953, representatives of the Kennecott Company met with Finance Minister Rosetti,[2] to inform him that they were unable to place their production at the present price and that unless Chile's price were made competitive, Kennecott would have to curtail production. (This curtailment took place June 12). The Finance Minister replied, that it was the obligation of the United States Government to maintain the 35½ cents price in order to save the Chilean economy from bankruptcy. When the Kennecott representatives pointed out that the United States Government had nothing to do with the price of copper and that his proposal, in effect, asked United States private industry to subsidize the Chilean Government, the Minister criticized United States loan policies in Latin America. He indicated that, in the absence of United States loans, there would be increasingly strong demands in Chile for nationalization of the mines and for sales behind the Iron Curtain. Unfortunately, the Minister did not mention another possible solution, i.e., the possibility that solvency might be approached by curtailing government expenditures, eliminating subsidies, and attacking the fundamental problems of the Chilean economy; nor did he recognize that any blame attached to the Government of Chile for its nationalization of copper sales and its arbitrary establishment of a very high minimum price.

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[1] Drafted by Mr. Barall.

[2] Juan B. Rosetti; on June 25, 1953 Señor Rosetti was succeeded as Minister of Finance by Felipe Herrera.

Chile's excuse for the denunciation of the copper agreement was its financial and economic problem and its deficit in 1952. We informed Chile at that time, that if it expanded its foreign exchange budget because of anticipated higher copper receipts, it was likely to create another economic and financial crisis such as it was trying to solve. Despite the fact that Chile made an extra $80 million on the copper overprice, Chile's current crisis bears out our prediction. The Minister apparently considers the drop in the price of copper a temporary dip and that United States loans would provide a satisfactory stop-gap solution. If the United States provides, without conditions, the loans which Chile seeks, we merely postpone and make more difficult the eventual day of reckoning. The only logical solution lies in fundamental economic reforms by Chile which will result in increased production, the establishment of competitive prices, diversification of the economy, and less government intervention in and control of business, industry and agriculture. If United States assistance is to be made available to Chile, it must be provided on a basis which will bring about the long-range constructive program required in Chile if it is to attain economic stability.

The Minister said he had been informed by our Embassy that sales behind the Iron Curtain would mean cancellation of the military pact and technical assistance and make it impossible for Chile to obtain further loans. If we are unable to consider Chilean requests for loans, Chile would not risk much loss by resorting to nationalization and/or sales to Communist countries. Military and technical assistance combined amount to only a few million dollars per year, whereas Chile would lose about $8 million per year for each cent of decline in the price of copper. With the world price now below 30 cents and Chile's budget based on the 35½ cent price, Chile faces an immediate loss of at least $45,000,000. Although it is very unlikely that Communist countries could or would absorb Chile's surplus production at 35½ cents, irreparable damage would be done to United States-Chilean relations if any such sale were openly made and we would risk strengthening the war potential of the Soviet bloc.

United States loans, provided in a cooperative program based on Chilean self-help, would probably be the most effective means to preserve democratic institutions in that country, help bring about economic stability and ward off the possibility of nationalization or sales of strategic materials to Communist countries.[3]

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[3] The source text bears the following handwritten notation initialed by Mr. Atwood: "This type of program seems necessary to prepare the ground for 'private' investment of both local & foreign capital later."

825.2542/8-453

Memorandum of Conversation by Milton Barall of the Office of South American Affairs

SECRET [WASHINGTON,] August 4, 1953.

Subject: Chile Requests United States Purchase Accumulated Copper for Stockpile

Participants: Ambassador Jara, Chilean Embassy
Luis MacKenna, Representative of Central Bank of Chile
Mario Rodriguez, Minister Plenipotentiary, Chilean Embassy
ARA—Mr. Cabot
OSA—Mr. Atwood
Mr. Barall

The Ambassador and his party called on Mr. Cabot to discuss Chile's grave copper situation. After the introduction of Sr. MacKenna, and Mr. Cabot's expression of thanks to the Ambassador for the courteous treatment extended to him and to Dr. Eisenhower's Mission[1] during their recent visit to Chile, the Ambassador said he wished to continue the discussions previously begun with Mr. Atwood, prior to Mr. Cabot's return to the United States.

Mr. Cabot reviewed the general copper problem, mentioning Chile's inability to dispose of its full production at the 36½ cent price and said he was aware of Chile's desire to sell its accumulated stocks of some 60,000 tons to the US stockpile at market price. Jara said this was correct but that the copper was accumulating rapidly and, while there were only 65,000 tons now on hand, Chile would like to arrange for the sale of 100,000 tons, the estimated amount which would have to be disposed of before normal sales and deliveries could be resumed. Mr. Cabot said the United States was prepared to give serious consideration to the Chilean proposal but that, naturally, he could not now predict the outcome. He expressed some dismay at the increase in tonnage and explained that, under any circumstances, it would be very hard to obtain agreement from the interested US government officials to make such a purchase. Mr. Cabot referred to the precarious fiscal position of the United States and to President Eisenhower's recent efforts to have the debt limit extended. Since Congress had not acted favorably on the President's request, all public funds would have to be very carefully watched. Mr. Cabot reminded Ambassador Jara of the difficulties experienced in reopening negotiations for the purchase of Bolivian tin, although Bolivia was in even greater need of assistance than Chile and the amount of money involved was much smaller.

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[1] Dr. Milton Eisenhower visited Chile July 13-15, 1953, as part of a factfinding mission to the countries of South America undertaken during the summer of 1953 at the request of President Eisenhower; see the editorial note, p. 196. Mr. Cabot accompanied Dr. Eisenhower.

Sr. MacKenna stated that Chile's need for this stockpile sale was urgent. He said his government recognized that it had to sell copper competitively at the world price. The American producing companies could not continue to finance current production indefinitely and had already stated they might have to curtail production. The resulting unemployment would add political problems to the already acute economic difficulties and increase public agitation. Chile is afraid to place its accumulated copper on the normal market because this would have a disastrous effect on the price. MacKenna indicated that there might be other suitable sales arrangements for the 100,000 tons, such as partial purchase by the stockpile, with the American companies buying the balance for their own plants at about 30 cents. When Mr. Atwood mentioned a report received today that American Smelting and Refining was reducing the price of primary copper to 28½ cents, effective immediately, MacKenna revealed indirectly that his government was not yet adjusted to a freely fluctuating market price, but now identified "market price" with the 29¾–30 cent range which has prevailed for some time. (The Chilean Government is probably recalculating its estimated revenues at this rate.)

Sr. MacKenna made it clear that the stockpile purchase would be part of an overall settlement of the copper problem. He said Chile had under active consideration plans for a new tax and exchange law and for better operating conditions for the American producers. He said he had been authorized to begin these discussions with the companies and/or the US Government at once. He stated it was his government's intention, in line with the economic reforms now under way, to move copper to the 110 exchange rate as soon as possible, as had been done for the nitrate industry on July 31.

Mr. Cabot said better treatment for the copper companies would be in the best interests of Chile and the United States inasmuch as the present system, which taxed away 80–90% of the companies' profits, was not conducive to additional investment nor was it encouraging to any private investor. MacKenna said his government recognized the difficulties under which the American companies had been operating in Chile and hoped the new arrangements to be worked out would lead to increased production and spur additional investment. Ambassador Jara broke in to add that President Ibañez, who understood the situation better than anyone, was especially interested in establishing a climate favorable for private investment, and that it is the desire of the Chilean Government to cooperate with the United States. The Ambassador said he would send a formal note[2] covering Chile's proposal tomorrow and asked if he could expect an answer within a week. Mr. Cabot replied that the Department would start working on the problem immediately but reiterated that all he could say at the present time was that the US would give it serious consideration.

MacKenna them moved on to the second point he wished to discuss, Communist propaganda in Chile for sales to iron-curtain countries, and the belief of the man in the street that a good market for 35½ cent copper (FAS Chilean ports) exists in Western Europe but that Chile is prevented from making these sales because of Chilean loyalty to the United States or because of threats of US economic pressure. He said he wished to destroy this "*fantasma*" (phantom idea) that Chile would be forced to sell at the market price out of deference to the US, instead of profiting from higher-priced sales in Europe. [*Note*: He failed to acknowledge that repeated public statements by Chilean officials had led to widespread acceptance of this erroneous belief by a large segment of the Chilean public. An editorial in *El Mercurio* April 23, 1953, took the government to task for lack of understanding of the copper market which had led to repeated denials of a price drop.][3]

MacKenna expressed his personal belief that there was no such market for Chile's copper in Europe, supporting his position by citing the numerous inquiries and offers addressed to the Central Bank by European forwarders, only one of which had been effectively backed up by the opening of a dollar credit on a London bank. MacKenna said he stopped this shipment and that he had provided full cooperation to the Embassy in controlling East–West trade in copper but pointed out the political difficulties involved in explaining to the public that Chile accepted a lower price in order to cooperate with the United States. This led to Communist claims that the government was a tool of the United States.

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[2] Chilean Embassy note no. 1164–150, dated Aug. 6, 1953, requesting the United States to purchase for its stockpile 100,000 tons of Chilean copper, and the Department of State's reply, drafted by Mr. Barall, dated Sept. 3, 1953, indicating that the United States was prepared to discuss with Chilean representatives the conditions under which copper might be purchased, are in file 825.2542/8–653.

[3] Brackets in the source text.

MacKenna proposed offering a token sale of perhaps 500–1000 tons to a Western European country, at 35½ cents, without requiring the non-re-export certificate which Chile demands for all sales outside the Western Hemisphere. He feels sure there will be no buyer to put up dollars at this price and that the government would then be able to use this case to destroy the "*fantasma*" and defeat Communist propaganda. MacKenna asked if there weren't some US organization abroad which could follow the shipment and prevent its diversion to the iron-curtain if the sale should actually be completed. The Department officers explained that this proposal might backfire even if there was only a small but effective demand in Europe, and that it was difficult to follow all shipments to prevent diversion. After further discussion of this proposal, it was decided that it would be studied on its merits, apart from the major proposal for the stockpile sale.

Sr. MacKenna then introduced the third item on his agenda. He said he had brought with him a letter[4] from President Ibañez to President Eisenhower seeking general support for the stockpile purchase. However, he had been instructed to discuss this letter first with Mr. Cabot and to deliver it only when and if the Department felt it would be helpful in securing approval. Mr. Cabot said he thought it would be best to delay on the letter, to allow time for discussions within the US government and with the companies, and for the formulation of an inter-agency opinion.

In the course of the discussion Ambassador Jara had remarked that the American companies, as was natural under the circumstances, were selfishly taking advantage of the present difficulties to try to force the maximum in concessions from the Chilean government. At an appropriate time Mr. Atwood picked up this remark and said he thought the Ambassador was mistaken in his opinion of the companies. He assured the Ambassador that, on the contrary, the companies were very much concerned with Chile's economic welfare, that they were aware of the acute financial difficulties being faced, and that they wished to cooperate in finding a mutually satisfactory and beneficial solution which would bring stability to the copper industry.

MacKenna said he was under instructions to reply frankly and fully to any questions raised by the United States. He and the Ambassador said the purpose of their visit was to obtain the Department's support for the proposed sale, which was so important in Chile's efforts to strengthen its economy. Mr. Cabot replied that he had been aware of Chile's economic difficulties ever since he first assumed his present office but that, until now, there had been no opportunity to deal effectively with the problem. This was the first proposal Chile had made for a cooperative effort to improve the situation. He said he would see if it is possible for the United States to assist Chile in this matter.

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[4] Not found with source text.

825.2542/8-1053

Memorandum by the Assistant Secretary of Commerce for International Affairs (Anderson) to the Assistant Secretary of State for Inter-American Affairs (Cabot)[1]

CONFIDENTIAL WASHINGTON, August 10, 1953.

Subject: Chilean Copper

As a consequence of the softening of the copper market, the Chilean Government has accumulated unsold stocks of copper of about 75,000 tons under its present deal with the companies. Up to now, this copper has been offered at 35½ cents FOB Chilean port. A special representative of the Chilean Government, Mr. MacKenna of the Central Bank of Chile, under instructions from the President of the Bank, is in Washington and has made a written proposal substantively as follows:

The Chilean Government will negotiate a new deal with the American copper companies, substituting an income tax at a presently unspecified rate, for the present scheme of requiring the companies to return dollars for Chilean expenses at 19.37 pesos per dollar, and for the present scheme of buying the companies' copper at 24½ cents for resale at higher prices. The new exchange rate will be 110 pesos to the dollar. The Chilean Government will also concurrently adopt certain anti-inflationary policies, long overdue. The government will also authorize the companies to sell their copper in the normal way at world prices from now on. Pursuant to this undertaking, which Mr. MacKenna insists can be passed quickly through the Congress, the government will press the United States to purchase at world market prices, approximately 100,000 tons of unsold copper (75,000 tons now on hand, plus near-term accumulations).

My impression is that the Chilean Government is, for the first time since 1951, seriously resolved to carry out rationalization of the copper deal with the companies, and has a fair chance of success.

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[1] Addressed also to Assistant Secretary Waugh, Assistant Secretary of the Treasury Overby, Director of the Office of Defense Mobilization Flemming, and Acting Assistant Administrator of the Defense Materials Procurement Agency Gumbel.

There is also some evidence that it may have greater success in dealing with inflation than has been the case heretofore.

It seems obvious to me that under the present circumstances, the U.S. cannot purchase $50 million to $60 million worth of spot copper for fiscal reasons. If we are, therefore, to make any compensatory gesture to the Chileans to encourage them to carry out their part of this scheme, we must devise some alternative idea.

I propose the following plan for debate. The U.S. Government, through ODM or DMPA, propose to the two copper companies, Kennecott and Anaconda, that it would be prepared to execute a "put" to these companies of 100,000 tons of copper at say 25 cents a pound ($50 million). The "put" would be exercisable in whole or in part, only at the end of five years and not during the five years. The companies would agree that if during the five-year period of the ownership by them of the 100,000 tons of copper, they should propose to sell any of the copper, the U.S. Stockpile would be afforded a first refusal at the proposed selling price, less ½ cent per pound. The companies thereupon would make a purchase of 100,000 tons from the Chilean Government at whatever price could be negotiated with the Chilean Government (say, for the sake of this discussion, 28 cents a pound). The companies would thereupon borrow from American private banks on a five-year note $50 million, at say 4%. The note would not be serial, but would mature at the end of five years and would be collateralized with 100,000 tons of copper protected by the U.S. Government "put". The companies, of course, would be obligated on their own credit to pay interest charges currently on the loan.

The effect of this transaction would be that the companies would put up an initial margin of about $6 million and would be further obligated during the five-year period, if no selling off of copper took place, to an aggregate interest charge of about 20%, or $10 million. The companies' risks would thus be a maximum of $16 million, if no sales were made during the five-year period, and if all of the copper had to be put to the government at the end of the five years.

It is reasonable to expect that during the next five years, the opportunity to sell or consume this much copper at a price higher than 25 cents per pound (indeed higher than 28 cents per pound), would be presented. This amount of copper is only about one month's consumption in the United States. To the extent that such opportunities appear and were accepted, the companies' risks would be progressively reduced.

It is believed that the question of whether DPA funds would have to be obligated pursuant to this deal would be dependent entirely upon whether ODM's present judgment was that the government would be likely to suffer a loss at the end of five years. If the answer to this question is negative, no obligation of DPA funds would be required. If it is positive, the amount required would depend upon the estimate of the possible loss. Thus, there is a chance that this kind of a transaction would not affect the debt limit problem and, of course, it would, under no circumstances, affect the cash outflow.

We do not, of course, know the reaction of the companies except that we are aware of the fact that the companies have a large stake in rationalizing their deal with Chile, which they have desired for many years. Chile has a substantial stake in accomplishing this rationalization in that a rate of 110 pesos to the dollar for return of dollars would stimulate the companies to purchase materials and supplies in Chile, as against imported.

In view of the fact that Anaconda proposes a sharp reduction in its mining activities at the end of August, there is great urgency in reaching a decision as to what, if anything, can be done in this matter.

SAMUEL W. ANDERSON

825.2542/8-1353

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Secretary of State [1]

CONFIDENTIAL [WASHINGTON,] August 13, 1953.

Subject: Chile Requests United States Purchase 100,000 Tons of Copper for Stockpile

Chile is facing perhaps the most serious financial crisis in its history. Under special powers granted President Ibañez, he has issued some 400 decrees, at the risk of political agitation, taking steps to meet Chile's inflationary problem, eliminate artificial exchange rates and stabilize the economy. Because of its arbitrary price of 36½ cents per pound as compared with the market price of 28½–30 cents, Chile has accumulated about 70,000 tons of copper, its principal export, which cannot now be marketed except at the risk of weakening an already unstable market and further adding to Chile's financial difficulties. The Chilean Government has formally proposed that the United States purchase the accumulated stocks which it says will soon approach 100,000 tons, for our strategic stockpile. This measure would stabilize Chile's chief industry and provide the new administration an opportunity to work out a more realistic budget for 1954.

The advantages and disadvantages of a purchase are listed below:

Advantages

1. Chile will conclude arrangements for a satisfactory tax and exchange law with the American producers and halt a trend toward

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[1] Drafted by Mr. Barall; a handwritten notation on the source text indicates that the Secretary saw this memorandum.

the gradual nationalization of an investment by these companies of over 500 million dollars.

2. United States consumers would have access to Chile's copper production at prevailing market prices whereas they now pay premium prices.

3. Chile would establish adequate safeguards to prevent sale or diversion of copper to Soviet bloc countries. Without this purchase, such sales are a distinct possibility.

4. This would be an unquestionably sound alternative to loans.

Disadvantages

1. This purchase would involve delivery of copper not now needed in our stockpile program and might lead to charges of discrimination if a similar opportunity for stockpile sales were not given to other sellers.

2. The purchase would involve an expenditure upward of 40 million dollars.

This problem is an example of conflict between sound US objectives in the field of foreign policy and equally sound domestic policies. I am afraid that if the US cannot help Chile, there will be enormous pressure for radical measures affecting our interests, including attempts to make large-scale sales to iron curtain countries and possible nationalization of the Anaconda and Kennecott mines which produce 95% of Chile's copper.

825.2542/8–1353

Memorandum of Conversation, by the Director of the Office of South American Affairs (Atwood)

SECRET [WASHINGTON,] August 13, 1953.

Subject: Chilean Copper (Meeting in Mr. Flemming's Office at 4:30, August 12, 1953)

Participants:
- Mr. Arthur Flemming, Director, ODM
- Mr. Andrew Overby, Assistant Secretary of the Treasury
- Mr. Samuel Anderson, Assistant Secretary of Commerce
- Mr. Mansure, DMPA
- Mr. Samuel Waugh, Assistant Secretary for Economic Affairs, Dept. of State
- Mr. John Cabot, Assistant Secretary for Inter-American Affairs, Dept. of State
- Mr. Rollin S. Atwood, Director, Office of South American Affairs, Dept. of State

Mr. Flemming opened the meeting and, after a few general remarks, asked Mr. Anderson to discuss his proposal regarding the Chilean copper situation. Mr. Anderson discussed his proposal as outlined in his memorandum of August 10[1] which suggests a procedure whereby the United States copper companies would seek to make arrangements directly with the Chilean Government to handle the problem of unsold accumulations of copper. The proposal involves participation by the United States but does not contemplate any direct stockpile purchases.

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[1] *Ante*, p. 703.

Following Mr. Anderson's elaborations of his proposal, Mr. Cabot stressed the urgent need for a solution which would enable the Chilean Government to go forward with its plans for fiscal and monetary reforms and for a revision of the impossible conditions under which American companies are currently operating in Chile. The Chilean proposal to stabilize her economy and handle the problems faced by the copper companies was included in a note presented to the State Department on August 6, 1953.[2] Mr. Cabot agreed that a plan along the lines outlined by Mr. Anderson should be considered and should be discussed with the copper companies to see whether it represented a possible solution of the current problem. Mr. Waugh stressed the importance of close cooperation with the companies pointing out that this problem involved both the Government and private business and that frank discussions should be held with the United States companies involved. Mr. Overby pointed out that the United States fiscal situation would make it next to impossible to approve any considerable stockpile purchase and he felt that every attempt should be made to have the companies handle this problem directly with the Chilean Government. He indicated that the American copper companies were in a very good financial position and that they should be able to work out some program for handling the accumulations of unsold copper in Chile. After considerable discussion, Mr. Flemming suggested that this problem was one which should be presented to the Defense Mobilization Board after full discussion with the companies and after consideration by the Board should probably be presented to the National Security Council.

It was agreed that Mr. Anderson would call in the top officials of the two copper companies and discuss this matter frankly with them. Mr. Flemming suggested that, following Mr. Anderson's discussions with the companies, it might be well to have another meeting of this group in order to determine what proposals should be made to the Defense Mobilization Board and/or the National Security Council. Mr. Anderson said that following his discussions he would report to the other members of the group.

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[2] See footnote 2, p. 701.

825.2542/8–2153

Minutes of the 44th Meeting of the Defense Mobilization Board, Held in Washington, August 19, 1953[1]

SECRET

[Here follows a list of those present (33).]

The meeting convened at 10:30 a.m. in Room 100, Executive Office Building.

I. *Chilean Request for U.S. Purchase of Copper*

This item was not on the prepared agenda.

Assistant Secretary Cabot outlined the problem to the Board as follows: the Government of Chile faces a severe economic crisis. Its controls over the national economy have been ineffective in combating inflation and have generally distorted that nation's economic life. Among other things, its policy of purchasing copper from domestic producers at a fixed price of 24½ cents and selling it at 35½ cents has made Chilean copper uncompetitive in world markets and has resulted in the accumulation of about 85,000 tons of unsold copper. The Chilean Government has now requested the United States to purchase 100,000 tons of copper for our stockpile at the current price rather than at the previous fixed price. In exchange the Chileans have agreed to take steps to eliminate the artifical exchange rate, halt the trend toward nationalization of American-owned mines, prevent sales or transshipment of copper to the Soviet bloc, and sell current production at current prices.

The Department of State, taking into consideration the serious repercussions that might occur if no effective action were taken on the Chilean request, recommends that representatives of the United States Government meet with the representatives of the American copper companies concerned (Anaconda and Kennecott) to determine whether they can agree on a solution to this problem to be recommended to their principals, which, if approved by the latter, would be presented to the Chilean representatives. A solution would presumably include purchase at current market prices for the United States stockpile of part of the accumulated copper and the temporary sterilization of the rest of it by the companies with provision for its eventual resale.

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[1] The Defense Mobilization Board (DMB), established Jan. 3, 1951, served as an advisory body to the Director of Defense Mobilization, and provided a means for coordinating the policies and activities of the principal agencies participating in the defense program. Its membership was comprised of the Director of Defense Mobilization (Chairman); the Secretaries of State, Defense, Treasury, Commerce, Agriculture, and Labor; the Administrators of the Reconstruction Finance Corporation, the Economic Stabilization Agency, and the Defense Production Administration; and the Chairmen of the Board of Governors of the Federal Reserve System and the National Security Resources Board.

Mr. Waugh represented the Secretary of State at this meeting; he was accompanied by Mr. Cabot.

These minutes are signed by Joseph E. Vaughn of the Office of Defense Mobilization; they were transmitted under cover of a memorandum by Executive Secretary of the Office of Defense Mobilization John D. Young to Mr. Waugh, dated Aug. 21, 1953, not printed.

After discussing the general problem, the Board indicated its agreement to the following course of action:

1. GSA to prepare a memorandum setting forth the status of existing DMPA and stockpile contracts, commitments and scheduled deliveries of copper for the stockpile.
2. GSA to furnish information in re possible cancellation of certain floor price contracts in order to compensate for any stockpile purchases from Chile.
3. ODM staff to outline the timetable for review of the copper stockpile objective.
4. Representatives of the Departments of State and Commerce to consult with spokesmen of the companies involved in order to obtain the latters' views with respect to this problem with emphasis on determining what the companies themselves may be able to do in order to alleviate the problem.

This matter will be reconsidered at the next meeting of the Defense Mobilization Board on August 26.

[Here follows discussion of other matters.]

INR-NIE files

National Intelligence Estimate [1]

SECRET

[WASHINGTON,] August 24, 1953.

NIE-85

PROBABLE DEVELOPMENTS IN CHILE [2]

THE PROBLEM

To estimate the current situation and probable developments in Chile, with particular reference to the stability of the Ibanez government and the probable development of its foreign policy.

CONCLUSIONS

1. The present situation and trend in Chile are adverse to political moderation and stability. The gravity of Chile's economic situation and

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[1] A cover sheet and dissemination notice are not printed.

National Intelligence Estimates (NIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet rank, and the National Security Council (NSC). The Department of State provided all political and some economic sections of NIEs.

[2] A note on the cover sheet reads in part as follows: "The Intelligence Advisory Committee concurred in this estimate on 18 August 1953. The FBI abstained, the subject being outside of its jurisdiction."

a widespread sense of political frustration have increased demands for radical and nationalistic solutions.

2. President Ibanez was elected on the strength of his demagogic campaign promises and his personal reputation for vigorous action. He is hindered by lack of an established political organization and lack of an effective majority in Congress. On the other hand his political opposition, ranging from conservative landholders and big industrialists through the middle-class supporters of the preceding administration to labor organizations and the Communists, is divided and ineffectual.

3. In present circumstances Ibanez is capable of controlling Communist activities in Chile and will probably do so. However, a severe deterioration of the economic situation would greatly enhance Communist capabilities to foment labor disturbances and civil disorder. Should the Communists gain such influence as to threaten the government and Ibanez proved unwilling to take sufficiently vigorous action to control them, the armed forces would probably assume police powers, if not actually take over the government.

4. Ibanez' most urgent political and economic problem is to halt a severe inflation. He may succeed in checking temporarily the inflationary trend, but a lasting solution of this problem would require a substantial increase in production of consumer goods, which cannot be achieved during Ibanez' term in office without substantial foreign financial aid. In the absence of adequate foreign aid and of more drastic domestic action, it is likely that the unsolved problem of inflation will lead to a political crisis in Chile during Ibanez' term.

5. Chile will almost certainly support (or at least not oppose) the United States in the UN on major issues arising from the East-West conflict. At the same time Chile will increasingly seek to demonstrate independence of the United States and, in economic matters, to act in concert with other Latin American countries regardless of the position of the United States.

6. Economic cooperation between Chile and Argentina may increase, but in the development of such cooperation Chile will exercise care to avoid economic and political domination by Argentina.

7. As long as Ibanez has any hope of US financial aid he is likely to take care to avoid antagonizing the United States, but he may seek to extort such aid by threatening cooperation with Argentina, with the USSR, or with the Arab-Asian bloc in the UN. If he is seriously disappointed in his expectation of US aid and faces a severe deterioration in the economic and political sitaution in Chile, he will probably attempt to regain popular support by a return to Yankee-baiting.

8. In the event of such a deterioration in the internal situation it is likely that Ibanez will find it impossible to cope with the problems which beset him by constitutional means and resort to arbitrary rule.

9. Given the probable support of the armed forces, it is likely that Ibanez could rule arbitrarily for some time. His exercise of dictatorial powers would probably not relieve the economic situation substantially, however, and it is likely that there would be efforts to overthrow his regime. If, in these circumstances, political opposition and popular hostility became so general and intense as to lead to widespread disorder, the armed forces would probably withdraw their support and the regime would fall.

10. Any estimate of future developments in Chile must be qualified by reference to Ibanez' advanced age and reported ill-health. He may become physically or mentally incapable of acting vigorously on either a constitutional or a dictatorial basis.

11. In the event of Ibanez' death or removal from office, any successor government would face the same economic problems and would be subject to the same radical and nationalistic pressures as affect the present regime.

DISCUSSION

Introduction

12. Chile normally supplies the United States with about half of its copper imports, or about 20 percent of US copper consumption. Moreover, Chile's standing in the Latin American community is such that the character of its political relations with the United States (or with Argentina) is a matter of general significance.

13. The world-wide depression in the early 1930's made Chile acutely conscious of its excessive dependence on the proceeds from copper and nitrates. Succeeding administrations attempted to promote rapid industrialization. They also sought a less unequal distribution of income. However, the manner in which these programs have been carried out has led to a severe inflation. Meanwhile, as a result of the development of industries in urban areas, the preponderance of political power has shifted from the landowners to new urban interests. These new political groups have been unable to unite on a program for solving Chile's problems and are becoming more inclined to advocate radical and nationalistic solutions as these problems become increasingly severe.

Political Situation

14. The present economic trend in Chile is adverse to political moderation and governmental stability. This trend is more fundamental than the character of any particular administration as a determinant of political developments.

15. The dominant personality in the present political situation is that of seventy-five year old Carlos Ibanez del Campo, who succeeded to

the Presidency in November 1952. In the course of a stormy political career Ibanez has proved himself to be an opportunist addicted to strong personal rule. A professional Army officer, he achieved political prominence in 1925 as leader of a coup by younger officers which overthrew a military junta and restored a reformist civilian regime. In this way he became Minister of War and, two years later, President. His regime was based on military force, but nevertheless collapsed in 1931 under the impact of the depression. After a period of exile in Argentina, Ibanez reappeared in 1937 as leader of the Chilean Nazis, whose disorders led to their suppression. In 1942 he was the unsuccessful presidential candidate of a conservative coalition, and subsequently on several occasions he was suspected of plotting to overthrow the duly elected government. In 1949 he was elected to the Senate, from which position he ran for the Presidency in 1952.

16. In the presidential election of 1952 the mood of the Chilean electorate was one of intense dissatisfaction with the administration of Gabriel Gonzalez Videla. He had been elected in 1946 as the leader of a leftist coalition which promised the laboring classes a larger role in the national life and a greater share of the national income. Gonzalez Videla estimated that, with US financial assistance, his industrial expansion program could be accomplished before inflation became unmanageable. In order to make Chile eligible for US assistance, among other considerations, he expelled the Communists from the three cabinet posts which they had been awarded and officially outlawed the Communist Party under the Defense of Democracy Law, which he sponsored for this purpose. This law alienated organized labor, which complained that the government used it to circumscribe legitimate trade union activities. Moreover there was general reaction against the runaway inflation. Ultranationalists succeeded in intensifying anti-US feeling by charging that Gonzalez Videla had surrendered the national sovereignty to US interests.

17. Ibanez successfully exploited this rising tide of discontent. He avoided identification with any established political party and ran on his personal reputation for forceful action. To the workers he promised economic and social improvement and repeal of the Defense of Democracy Law. To ultranationalists he promised to vindicate the national sovereignty, and curried favor with them by severely criticizing the military assistance agreement with the US. To all segments of the population he promised elimination of corruption and waste in government, a "more balanced" economic development policy, and a lower cost of living. Ibanez was elected President with a popular plurality, though not a majority.

18. Ibanez' most reliable political support comes from the middle sector of society, which embraces small industrial and agricultural

proprietors, professional men, government officials, and white-collar employees. Widely divergent views on both political and economic policies are held within this grouping. The Ibanez Administration's most intimate relations appear to be with those elements which admire the authoritarian regimes of Peron and Franco[3] and which favor a corporate form of government (like that of Salazar[4] in Portugal), State control of labor, and emphasis on agricultural development. However, the only strong ties uniting Ibanez' middle-class supporters are their distrust of the more conservative political parties, their anti-US nationalism, and their belief that Ibanez is the only man who can overcome Chile's economic ills.

19. Most of the middle-class elements which supported the preceding Radical Administration oppose Ibanez. Most intellectual and student groups (traditionally an important factor in Chilean politics) oppose him, primarily because of his authoritarian associations. The Radical party, since its fall from power, has attempted to regain some of its former political influence by advocating pro-labor programs and generally outbidding Ibanez for mass support.

20. Organized labor, which constitutes roughly 20 percent of the total labor force, has been a political force in Chile for the past fifteen years. Its support was an important factor in Ibanez' election, although his mass vote came primarily from unorganized workers. In the first few weeks of his regime Ibanez adopted a friendly policy toward labor, intervening in strikes to award benefits to workers and expressing a direct personal interest in the problems of individual workers. However, he soon began to criticize organized labor by claiming that it placed its own interests above those of the national welfare. A target of Ibanez' criticisms has been the new national labor confederation, CUTCH,* which was organized in February 1953 to provide labor a unified leadership free of government control. Virtually all labor organizations in Chile are affiliated with CUTCH. Despite active Communist collaboration in the unity movement and Communist influence in constituent unions, CUTCH has so far avoided Communist domination. At present CUTCH is evincing opposition to Ibanez, in part because some of his followers have created a rival labor organization. Still in the embryonic stage, this new pro-Ibanez labor group as yet poses no serious threat to CUTCH.

21. Conservative elements in Chilean society have on the whole been opposed to Ibanez. These elements are represented primarily by the large landholders and the business interests, which comprise the

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[3] Generalissimo Francisco Franco y Bahamonde, Chief of State in Spain.

[4] Antonio de Oliveira Salazar, Premier of Portugal.

* Central Unica de Trabajadores de Chile. [Footnote in the source text.]

most cohesive social, economic, and political groups in Chile. Their opposition to Ibanez is based primarily on their dislike of social welfare schemes and increased government controls, and their fear that Ibanez may again resort to personal dictatorship. The large industrialists resent the reduction in emphasis on industrial expansion. Although some large landholders approve Ibanez' emphasis on agriculture, they fear that the Administration may intervene in marketing processes and may press legislation for minimum agricultural wages.

22. During recent years there has been an increasing fragmentation of political parties. Thirty-six parties participated in the March 1953 congressional elections, and twenty won seats. The Administration's main strength lies in two parties, the Agrarian Laborites and the Popular Socialists, which differ on many issues, particularly on the proper relationship between government and labor. Together with a group of small factions which normally support Ibanez, they have barely half of the seats in the Chamber of Deputies and are a minority of less than one-third in the Senate. The principal opposition parties are the Conservatives, Liberals, and Radicals, which, together with a group of small anti-Ibanez factions, control the remaining seats in Congress. However, on both sides party loyalties constantly shift, and there is a continual regrouping of loose, *ad hoc* alliances.

23. After the Chilean Communist Party was outlawed by the Radical Administration in 1948, it ceased to constitute an effective direct political force. The Communist political front, the People's Front coalition, polled only about 50,000 votes in the September 1952 and March 1953 elections and won only 10 seats in Congress. The Communist Party's membership is estimated at about 35,000. Its principal immediate objectives appear to be to win control of labor organizations and of student and intellectual groups; to further the influence of anti-US ultranationalists in the Ibanez Administration; to press for legalization of the Party through repeal of the Defense of Democracy Law; and to secure the re-establishment of commercial and diplomatic relations with the Soviet Bloc. Although the Communists opposed the candidacy of Ibanez, they hailed his victory as a defeat for the US and offered him support for an anti-US program. For a while Ibanez maintained a tolerant attitude toward the Communists. More recently he has caused difficulties for the Communist press, harassed individual Communists, and given warning that he would not tolerate strikes threatening the national interest. This shift in Ibanez' attitude probably reflects a sense that the Communists challenge his personal authority and a desire to win US and conservative approval. Nevertheless, in June Ibanez acceded to Popular Socialist demands that he support repeal of the Defense of Democracy Law, which would have the effect of restoring important political and organizational rights to the Communist Party. Ibanez stipulated, however, that repeal of the Defense of

Democracy Law must be accompanied by a strengthening of the basic Internal Security Law.

24. The Communists virtually control the labor unions in the nitrate fields and coal mines. The major copper workers' federation is anti-Communist, but the Communists nevertheless command a minority following among copper mine workers. As copper mining is now entering the deep-pit phase, Communist opportunities for sabotage are increasing. The Communists have some influence in the maritime and port workers' federation, but at present are not strong in the railway federation or in telecommunications. The Communists have so far failed in their efforts to gain control of CUTCH, but have won important influence in the Santiago provincial affiliate of CUTCH.

Armed Forces

25. The Chilean armed forces have a total approximate strength of 67,500 men, a strength surpassed in South America only by Argentina and Brazil. These forces include: Army–24,000; Carabineros (security police)–21,000; Navy–17,500; and Air Force–5,000, including 250 pilots. Army and Carabinero leadership, discipline, and training are well above the Latin American average. However, there are serious deficiencies in arms, equipment, and supplies. Combat effectiveness of the Army is low by US standards, but high in comparison with other Latin American forces. The Navy is perhaps the most efficient in Latin America. The government is making efforts to expand and modernize its small, US World War II-type air force by acquisition of US or British jets. The morale of the armed forces is normally high and remains good despite the adverse effects of inadequate pay in the face of inflation and of the threat of political interference implicit in recent high-level retirements. Communist efforts to penetrate the armed forces have been unsuccessful. The armed forces (including the Carabineros) have shown themselves capable of suppressing civil disturbances and strikes and of guarding against sabotage in the copper mines and other strategic industries.

26. The Chilean armed forces actively supported the Ibanez dictatorship, 1927–1931. Since then they have remained aloof from politics, loyally supporting successive constitutional governments. On taking office, Ibanez retired an unusually large number of senior officers in order to put personal adherents in positions of command. The armed forces will certainly support Ibanez as constitutional President, and would probably continue to support him if, in critical circumstances, he were to resort to dictatorial methods. If, however, an Ibanez dictatorship failed to relieve economic distress and faced nearly universal political opposition and popular hostility, the armed forces would eventually withdraw their support, as they did in 1931.

Economic Situation

27. The survival and future course of the Ibanez regime depends largely upon its success or failure in dealing with Chile's serious economic problems. Severe inflation and an imminent decline in Chilean copper export earnings are the two immediate threats.

28. The cost of living, which had been rising rapidly during the postwar period, spiralled upward at the rate of 22 percent per annum during 1951–1952. Since January 1952 the dollar value of the free peso has depreciated by about 90 percent. This inflation was stimulated by direct governmental promotion of industrialization through large-scale and long-term development programs which diverted resources from production of foodstuffs and consumption goods. Industrial development was promoted by central bank loans, by direct subsidies, and by preferential exchange rates to facilitate imports of materials and equipment. The growth of bank-held government debt resulted in a secondary expansion of bank credit, permitting a speculative boom. More recently additional impetus to inflation has come from increases in wages and welfare benefits.

29. Agricultural production has received comparatively little governmental aid or attention, and has not kept pace with the growth of population. Since 1947 Chile has been a net importer of foodstuffs. Cultivation and distribution methods are poor. The use of fertilizers is extremely limited despite Chile's position as the world's largest producer of natural fertilizers. Imports of farm machinery have been hampered by deterioration in the terms of trade of Chile's agricultural products.

30. In February Ibanez obtained from Congress special powers, terminating 4 August 1953, to carry out a broad program of administrative reforms and anti-inflationary measures. Under the authorization all measures decreed by Ibanez before 4 August would remain in effect after that date. Numerous administrative changes were effected under these powers, including measures to rationalize the government's credit machinery, and to reduce anticipated budget deficits through governmental reorganization and economy measures. It was not until 2 July 1953, however, that Ibanez took important anti-inflationary steps, a delay owing partly to differences of opinion in his cabinet over specific measures and partly to a reluctance to antagonize vested interests until he had improved his political position. On 2 July he ordered: (a) aboliton of preferential exchange rates on most imports in order to alter the pattern of trade; (b) a general price rollback to 15 June 1953 effective for two years; (c) wage rises of 10 to 15 percent affecting medium and low wage workers to compensate for higher prices on the imported foods and materials formerly subsidized by artificial exchange rates. On 14 July the Administration outlined to Congress a com-

prehensive economic plan including austerity measures, fiscal and financial reforms, and a production policy designed to emphasize agricultural and service industries.

31. Increased domestic production of consumers' goods and foodstuffs is one element essential to a lasting solution of the inflationary problem. Incentive prices and subsidies would stimulate increases in agricultural output, but unless carefully managed would in the short run contribute to inflationary pressures. Ibanez hopes to obtain short-term US Export-Import Bank loans and a long-term World Bank loan to increase agricultural investment. The World Bank has estimated that, in order to ease the growing burden of food imports and to raise consumption levels slightly, it would be necessary to increase investment in agriculture by about $300,000,000, one-third in dollar-financed imports, over an eight-year period. This would approximately double the present rate of investment in agriculture, which is now about 2 percent of gross national product.

32. The Chilean economy is heavily dependent on copper exports. The copper industry normally provides about two-thirds of Chile's total foreign exchange earnings and a substantial portion of its budgetary revenue. The government controls the sale of Chilean copper. It derives revenue from the US companies through the differential between its buying price from the companies and its higher export prices and through income and indirect taxes. It is highly doubtful that the current export price of Chilean copper can be maintained in the face of competition from other copper-producing areas, and the increasing availability and use of aluminum and other substitutes. In addition the demand for copper for rearmament and stockpiling purposes will almost certainly be reduced in the immediate future. A reduction in earnings from copper exports would aggravate the imbalance in Chile's international payments.

33. Friction has arisen between the Chilean Government and the US copper companies (Kennecott and Anaconda) operating in Chile. The companies maintain that the government pays them an unjustly low price (the former US ceiling price) for their copper, and that by asking an artificially high price abroad it has curtailed export sales. At present there is an accumulation of some 60,000 tons of unsold metal, equivalent to about seven weeks' production. They also complain that the income taxes are exorbitant and discriminatory, and that the arbitrary exchange rate is unfair to them. On the other hand, the Chilean Government complains that the local US managers are offensive in their dealings with the government and that the companies have not trained Chileans for higher executive positions. It also complains that the copper companies' labor relations have been unsatisfactory.

34. At present the Chilean Government is considering a revision of its policy toward the copper companies in order to maximize its profits

from the sale of copper. The government has initiated consultations with the companies with a view to maintaining the present level of governmental revenue and making governmental control of the marketing of copper more effective.

Foreign Policy

35. Chile's foreign policy is conditioned by a strong desire to retain the friendship and support of the United States, its most important copper market and the prospective source of needed financial and technical aid. Chile has generally cooperated with the US in the Organization of American States and has supported the US in the UN on major East-West issues. It has ratified the Rio Treaty and entered into a bilateral military assistance agreement with the US. Although Ibanez severely criticized this agreement during his campaign for the Presidency, his Administration has taken steps to implement it.

36. In recent years, however, increasing nationalism in Chile has complicated relations with the US. In common with other Latin American nations, Chile resents the alleged US neglect of Latin America since the end of World War II. It is strongly conscious of its position as an underdeveloped nation importing capital goods and manufactured equipment with the exchange earnings of its exports of raw materials. It has a constant fear of deteriorating terms of trade and is sympathetic to the point of view that underdeveloped countries have the right to nationalize their natural resources and to receive increased financial and technical aid from industrialized nations. On these issues Chile has exhibited over the past few years a willingness to cooperate in the UN with other underdeveloped countries such as the Arab-Asian bloc. Moreover, some elements in the Ibanez Administration favor the reestablishment of diplomatic and trade relations with the Soviet Bloc, hoping thereby to expand Chilean exports at higher prices. Thus far these elements have been overruled by Ibanez, who in a recent speech before Congress, attacked Soviet imperialism as being responsible for world tensions. Notwithstanding publicly declared support of the provisions of the Battle Act,[5] Chile has not thus far adopted effective safeguards against the diversion of strategic materials to the Bloc. Substantial amounts of copper were shipped to the Bloc in 1951 and 1952 via third parties, and Soviet buyers continue to make special efforts to obtain additional amounts.

37. Ibanez is a personal friend of Peron and his following includes elements disposed to favor closer political relations with Argentina. Some of these individuals have a genuine admiration for Peron's na-

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[5] Reference is to the Mutual Defense Assistance Control Act of 1951 (Public Law 213), approved Oct. 26, 1951, commonly referred to as the Battle Act after Representative Laurie C. Battle of Alabama; for text, see 65 Stat. 644.

tionalistic authoritarianism; others wish to make an alliance with Argentina as the nucleus of a solid Latin American bloc; still others hope to exert pressure on the US by making friendly overtures to its major opponent in the Western Hemisphere. However, a traditional Chilean fear of Argentine domination and a desire to avoid alienating the US have thus far inhibited a close alignment of Chile with Argentina. Ibanez himself has been wary of a close political relationship with Peron. In particular, he resisted Peron's attempts to include political clauses in the economic agreement signed by the two presidents on 9 July.[6]

38. This Argentine-Chilean agreement contains no specific economic commitments. It is simply a general statement of hopes for the future expansion of trade between the two countries. Chile requires foodstuffs, especially meat, from Argentina, while Peron desires to increase imports of Chilean copper, iron ore, and iron and steel manufactures. In any case the amount of trade involved represents only a small percentage of the total foreign trade of each nation.

Probable Developments

39. Ibanez' most urgent political and economic problem is to halt inflation. His capabilities in dealing with this problem will be limited by softening of the world price of copper, by his lack of an effective majority in Congress, and by the diversity of his Congressional support. Requisite domestic measures to curb inflation will require further Congressional action and each will tend to antagonize some important interest. Nevertheless, Ibanez may succeed in carrying out a program which would temporarily check the inflationary trend. No lasting solution of this problem is possible, however, without a substantial increase in Chilean production of consumer goods. Such an increase cannot be achieved during Ibanez' term in office without substantial foreign financial aid. There is no assurance that such aid will be forthcoming or that it would be put to effective use. In the absence of adequate foreign aid and drastic domestic action, it is likely that the unsolved problem of inflation will lead to a political crisis in Chile before the expiration of Ibanez' term.

40. A decline in Chile's copper export earnings is apparently impending and inevitable. Such a decline would reduce both foreign exchange availability and government revenue, and would thereby aggravate Chile's already serious economic difficulties. This development would probably stimulate demands that the US support the price of

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[6] The text of the referenced agreement, signed at Buenos Aires, providing for an economic union between Chile and Argentina, was transmitted to the Department of State under cover of despatch 28, from Buenos Aires, dated July 10, 1953, not printed (425.3531/7-1053).

Chilean copper or make up the difference through other forms of economic aid.

41. To the extent that Chile is unable to sell copper in the free world at a satisfactory price there will be increasing pressure to sell to the Soviet Bloc. Ibanez' statements of policy in relation to this subject have been equivocal or contradictory.

42. Chile will almost certainly support (or at least not oppose) the United States in the UN on all major issues arising from the East-West conflict. At the same time Chile will tend increasingly to demonstrate its independence of the United States, and, in economic matters, to act in concert with other Latin American countries regardless of the position of the United States.

43. Economic cooperation between Chile and Argentina may increase, but in the development of such cooperation Chile will exercise care to avoid economic and political domination by Argentina.

44. As long as Ibanez has any hope of US financial aid he is likely to take care to avoid antagonizing the United States, but he may seek to extort such aid by threatening cooperation with Argentina, with the USSR, or with the Arab-Asian bloc in the UN. If he is seriously disappointed in his expectations of US aid and faces a severe deterioration in the economic and political situation in Chile, he will probably attempt to regain popular support by a return to Yankee-baiting.

45. Ibanez would prefer to maximize government returns from the US copper companies in Chile without proceeding to the extreme of nationalization. If denied US aid, however, and facing a desperate economic and political situation, he would be likely, for political as well as economic reasons, to take steps against the copper companies which might lead eventually to nationalization of the industry. In the short run at least, nationalization would be more likely to reduce than to increase the revenues that the Chilean Government derives from copper. Nationalization would not eliminate Chile's imperative need to sell copper to the US.

46. In present circumstances Ibanez is capable of controlling Communist activities in Chile and will probably do so. However, a severe deterioration of the economic situation would greatly enhance Communist capabilities to foment labor disturbances and civil disorder. Should the Communists gain such influence as to threaten the government and Ibanez proved unwilling to take sufficiently vigorous action to control them, the armed forces would probably assume police powers if not actually take over the government.

47. Ibanez is apparently concerned to redeem his reputation by ruling constitutionally during his present term. It is likely, however, that his regime will become unpopular and that he will be unable to obtain effective support in the Chilean Congress. It is likely that sooner or later impatience, frustration, and the real need for drastic action will

move him to abandon constitutional political processes and resort to arbitrary rule.

48. Given the probability of continued division among his political opponents and of the continued support of the armed forces, it is probable that Ibanez could rule arbitrarily for some time. It is likely, however, that his exercise of dictatorial powers would fail to relieve the economic situation substantially, and that there would be efforts to overthrow his regime. If, in these circumstances, political opposition and popular hostility became so general and intense as to lead to widespread disorder, the armed forces would probably withdraw their support and the regime would fall.

49. Any estimate of future developments in Chile must be qualified by reference to the advanced age and reported ill-health of President Ibanez. He will be eighty-one at the expiration of his term in 1958, if he survives that long. He may become physically or mentally incapable of dealing vigorously with the difficult problems which beset him. If he should die in office, the Minister of the Interior, under the Chilean constitution, would assume the functions of the Presidency, pending a special election to be held within sixty days. The present Minister of the Interior is Osvaldo Koch, Ibanez' son-in-law. Koch was an active Chilean Nazi before and during World War II. Like Ibanez, he has no present party affiliation. If he came to power in the circumstances envisaged he would presumably endeavor to continue the Ibanez regime and policies. He lacks, however, the personal prestige and political strength of his father-in-law.

50. In the event of Ibanez' death or removal from office, any successor government would face the same economic problems and would be subject to the same radical and nationalistic pressures as affect the present regime.

825.2542/8–2853

Minutes of the 45th Meeting of the Defense Mobilization Board, Held in Washington, August 26, 1953[1]

TOP SECRET

[Here follows a list of those present (23).]

1. *Chilean Copper Problem*

At the Defense Mobilization Board Meeting this morning, General Smith said that State considered that the question of buying Chilean copper was primarily a defense decision. The State Department would no longer use the argument that a weak government must be bolstered up by measures of this kind for fear it would be replaced by something worse; it was impossible to buy strength. If on the basis of coldly calculated defense considerations it was determined that we should buy the copper, State had plenty of arguments to support this position but would not take it on political considerations alone.

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[1] Under Secretary Smith represented the Secretary of State at this meeting; he was accompanied by Assistant Secretary Cabot, who drafted this memorandum.

Secretary Humphrey said that he welcomed this change in the State Department's attitude with regard to bolstering up weak governments. Nevertheless, he did feel that there was something more involved in this question than defense. The fact was that Chilean copper is essential to American economy in peace as well as in war. Secretary Humphrey intimated that he was inclined to accept the proposal to buy the copper.

A lengthy discussion followed as to the statistical position of copper. In the course of it, Mr. Flemming brought out the desirability of preclusive buying since there was strong reason to believe that the Russians would take the larger part, if not all of it, once given a chance; they had bought 50,000 tons at high premium prices despite the western world's rigid controls. Mr. Vance[2] pointed out that although the stockpile might be filled under floor-price contracts in several years, at the moment the stockpile was not full; in fact, we had less than a year's required imports at peace-time levels in the stockpile today. What would happen if a crisis arose before the floor-price contracts filled the pile? Moreover, a substantial part of the copper included in the estimates for meeting war-time requirements was to come from Chile and even more distant sources which we could not count on in an emergency. This being the case, the stockpile was unrealistically small.

The sense of the meeting was that the copper should be purchased at market prices for the stockpile for preclusive purposes. Mr. Flemming pointed out that the Defense Mobilization Board had authority to engage in preclusive buying.

Assistant Secretary Anderson[3] agreed, but pointed out the strong desirability of attaching definite conditions to the purchase to rescue the American copper companies from an intolerable situation and to help out the Chilean financial situation.

General Smith said that he did not like to tie the negotiators' hands by telling them that they should secure conditions in connection with the pile. He understood that it was agreed that it was in the national defense interest to buy the copper and, if that was the case, conditions should not be attached tying down the negotiators.

Secretary Humphrey said that he did think that it was highly important to straighten the situation out with the American copper companies involved. General Smith agreed provided our negotiators would be given room to maneuver. That appeared to be the sense of the meeting.

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[2] Harold Vance, Special Assistant to the Director, Office of Defense Mobilization.

[3] Samuel W. Anderson, Assistant Secretary of Commerce for International Affairs.

There was considerable discussion as to terms. It was suggested that it would be better to purchase the amount of copper over a 12-month period at market prices since prices were showing a tendency to sag. In this way the companies would be left with the present accumulation to liquidate in an orderly manner. It also appeared to be the sense of the meeting that we should offer to buy 85,000 tons but that if better conditions could be secured by upping this figure by 5,000 or 10,000 tons, the negotiators might do this.

Mr. Flemming stated that he would write a letter[4] to State setting forth the agreed points and informing us of the man appointed to represent the defense mobilization agencies in the negotiations.

[Here follows brief discussion relating to defense mobilization assumptions and objectives.]

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[4] See *infra*.

825.2542/8-2853

The Director of the Office of Defense Mobilization (Flemming) to the Secretary of State

SECRET WASHINGTON, August 28, 1953.

DEAR MR. SECRETARY: At the August 26 meeting of the Defense Mobilization Board consideration was given to a proposal calling for the purchase of copper from the Chilean government.

It was the consensus of the Board that: (1) it would be in the interest of national security to purchase up to 100,000 tons of copper at the market price prevailing at the time of delivery; (2) any such purchase should be accompanied by an agreement on the part of Chile not to sell copper to the Soviet bloc; and (3) as a condition to the purchase Chile should agree to eliminate present economic practices which jeopardize American investments in that country and render it an unstable source of U.S. copper supply.

In view of the fact that the Administrator, General Services Administration, is the person authorized to enter into procurement contracts under programs approved by the Office of Defense Mobilization, I am asking Mr. Mansure to designate a representative to work with the Department of State on this matter. I am designating Mr. Charles Kendall of my own staff to work with your people and the representative of the General Services Administration.[1]

Sincerely yours, ARTHUR S. FLEMMING

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[1] For a list of the U.S. and Chilean representatives who participated in the copper discussions initiated at Washington on Sept. 21, 1953, see Department of State press release 510, dated Sept. 21, in Department of State *Bulletin*, Oct. 5, 1953, p. 442.

825.2542/9–3053

Memorandum by the Director of the Office of South American Affairs (Atwood) to the Director of the Office of Defense Mobilization (Flemming)

SECRET [WASHINGTON,] September 30, 1953.

Three formal meetings were held with the representatives of the Chilean Government on September 21, 23, and 28.[1] A formal meeting with representatives of Anaconda and Kennecott copper companies was held on September 24.[2]

The United States position as developed in the meetings with the Chileans emphasized that US agreement to purchase Chilean copper at the market price prevailing at the time of delivery was based on the condition that the Chilean Government: (1) agree to adequate measures to prevent sales of copper to the Soviet bloc; (2) agree to work out mutually satisfactory arrangements with the American producers which would not jeopardize their investments and would assure the availability of Chilean copper to the United States; and (3) agree to approve the sale of copper from current production at market prices.

These conditions were spelled out in detail and the point was emphasized that Chile had indicated on its own accord the decision to take these actions at the time the proposal was made to the United States regarding the purchase of surplus Chilean copper.

The Chilean representatives agreed that Chile had intended to do the things outlined since they were required to strengthen the Chilean economy. However, during the two-week period which MacKenna spent in Chile awaiting instructions from his Government, the political atmosphere in Chile had worsened and the "Commies" were embarrassing the Chilean Government to such an extent that it could not agree to have any "conditions" attached to the United States purchase. To be able to justify a sale to the United States rather than to accept better offers from the USSR and others, Chile would have to receive a "few cents" more per pound than the market price (it was later indicated that 32 cents was the figure the Chileans were thinking of).

If the United States could agree to this overprice, Chile would agree to: (1) prevent sales to the Soviet bloc by taking administrative action without publicity; (2) permit the current production of copper to be sold at market prices but under existing procedures; and (3) work out a mutually satisfactory arrangement for a copper-contract law with the copper companies as soon as politically possible following the purchase of 100,000 tons for the stockpile.

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[1] Minutes of each of the formal meetings between the U.S. and Chilean representatives, and extensive related documentation, are in file 825.2542 for 1953.

[2] A memorandum of conversation at the referenced meeting, dated Sept. 24, 1953, is in file 825.2542/9–2453.

The US reply to the "new" Chilean proposal and the Chilean "political" justification for the drastic changes requested was firm, perhaps a little rough, and limited to the original US position. Stress was placed on the necessity of a competitive market price for Chilean copper if Chilean production and sales were to continue and on the complete lack of any sound justification for the US to consider paying more than the market price. Obvious reasons for no sales of free world copper to the Soviet bloc were repeated and no doubt was left that adoption by Chile of procedures to prevent such sales would be a *sine qua non* of any agreement. The desire for a mutually satisfactory settlement with the US copper companies was placed in its perspective, i.e. as a part of the need for a stable, productive and balanced economy in Chile.

The Chileans, apparently recognizing that their request for an overprice would be resisted, countered by asking for an agreement to extend loans as a means of supporting the Chilean Government in its difficult decision not to sell to the bloc. The Chileans were informed of the difficulties involved in obtaining possible loans. A balance of payments loan was described as currently out of the question and furthermore not in line with the objectives of the negotiation. Any request for a development loan would, of course, have to be considered on the regular bases with which the Chilean representatives were fully cognizant. The final decision would have to be made by the Bank and the NAC, based on the soundness of the project submitted. In any event, a development loan would not be considered as a "substitute" for the extra price requested on the copper purchase.

Probable Final Chilean Negotiating Position Under Current Conditions

As a result of the arguments submitted by the US negotiating team, tacit agreement has been reached that the stockpile sale will be made at market price (30 cents). On its part, Chile will agree to take administrative action, without publicity, to prevent sales to the Soviet bloc by adoption of the IC/DV procedure.[3] It will announce publicly, after the US purchase of 100,000 tons of accumulated copper for the US stockpile, that the next step required to strengthen the copper industry and enable Chile to sell at competitive prices will be a new arrangement with the US copper producing companies re taxes and exchange rates. Chile will agree, after the US purchase, to have Chilean copper sold at the competitive market price under existing Chilean procedures. In short, they will substantially meet all our conditions except the one for a mutually satisfactory arrangement with the American companies prior to consummation of the transaction.

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[3] For information concerning the Import Certificate/Delivery Verification (IC/DV) procedure, see the Department's circular airgram, dated Apr. 16, 1952, p. 186.

It is not believed possible that the Chilean negotiators, under instructions from the present Chilean Cabinet and in view of the political atmosphere in Chile, could agree to a new contract law with the American producers as a prerequisite to the stockpile sale. We are currently exploring with them the possibility of having Chile take unilateral action on taxes and the exchange rate, leaving the negotiation with the companies and the passage of a contract law to a later stage.

Advantages of an Agreement and Risks of No Agreement Under Current Conditions

An agreement under present conditions without a change in the current status of the American companies would have only limited value. At the most, the US would obtain a Chilean reaffirmation, although secret, not to sell copper to the Soviet bloc, and current production would be sold at market prices. Such an agreement (under current conditions) would have little or no value to the US copper companies and would not succeed in having the Chilean Government face up to the facts of life and reorient its extremist, socialistic economic and political policies which are associated with anti-US demagogery and increasingly unsatisfactory relations. The risks of an unproductive agreement as well as the risks of failure to reach agreement must however be faced—Such risks include continued government policies favoring government ownership of industry and government control or ownership of trade, transportation, communications, and agriculture.

With regard to the risk of nationalization, the US copper companies, with over one-half billion invested in Chile, are willing to take the risk resulting from a break-down in the negotiations. They will not give their approval to an agreement which does not improve their relationship with Chile and would go along without protest only if it were determined that the US national interest would be really served by such an agreement.

With regard to the political advantage of an agreement under current conditions, it is hard to see how much can be achieved unless the agreement is productive in reorienting Chilean government policies. This is not likely to occur as long as the present Cabinet remains in control. An unproductive agreement or no agreement seem to carry about equal risks.

With regard to the value of the secret reaffirmation not to sell to the bloc, it must be measured in the light of previous Chilean Government actions. (a) The Chilean Government signed and ratified a Mutual Assistance Agreement which contains a promise that Chile will take measures to regulate commerce with nations which menace the security of the Continent. (b) During negotiations the Chilean Ambassador showed the US negotiators a telegram[4] from the Foreign Minister of Chile which stated that the President of Chile and his Cabinet had determined that regardless of the derogation of the Chilean decrees halting sales to the bloc, no sales of copper would be made to the Soviet bloc. Although this message was sent during negotiations, the Ambassador said it was not contingent on an agreement being reached.

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[4] Not further identified.

The opinion of the US copper companies, based on reports which they consider very reliable, is it is practically certain that Chile did not receive an acceptable offer from the USSR and there is little chance of any appreciable sale to the bloc. However, there are conflicting reports. The negotiating team believes that the risk of sales to the bloc remains ever present, despite Chilean promises and assurances.

Under conditions currently existing in Chile and barring determination by the President to orient the Cabinet away from the extreme popular Socialist and Commie slant, there does remain a risk that an overt sale may still be made to the Soviet bloc. The best insurance against such sales would be the sale of Chile's full current production through the American producers at market prices and the purchase of the present accumulation by the US Government. A new accumulation of unsold copper or a sharp price depression would increase the risks regardless of what the US does with respect to the 100,000 tons now under discussion.

Pending instructions from you we intend to continue negotiations with the Chileans with the object of attempting to work our some acceptable formula along the lines of getting the Chilean Government to take action with respect to the companies without necessarily involving direct Chilean-Company negotiations to which the Chileans seriously object at this time.

825.2542/10-953

Memorandum of Conversation, by Milton Barall of the Office of South American Affairs

SECRET [WASHINGTON,] October 9, 1953.

Subject: The Opinion of the US Producing Companies on Copper Negotiations

Participants: *Anaconda Copper Mining Company*
Mr. R. E. Dwyer, President
Mr. R. H. Glover, Vice President & General Counsel
Mr. T. A. Campbell, Exec. Vice Pres. Chile Exploration Co.
Mr. Elmer Lang, Vice President, American Brass Company

Kennecott Copper Corporation
Mr. Frank R. Milliken, Vice President
Mr. Carl Lenz, Pres., Kennecott Sales Corporation
Mr. Elwood S. Hann, Treasurer
GSA—Mr. Irving Gumbel
State—Mr. Atwood, Mr. Getzin, Mr. Barall

Mr. Atwood reviewed the Chilean and US positions as developed during the current negotiations pointing out that the US has not retreated from its position of requiring action with respect to the companies prior to the stockpile purchase, while Chile maintains that a contract law prior to the purchase is absolutely impossible.

The Anaconda officials quoted a Chilean businessman now in the US (Señor Heiremans) to the effect that Chile would not do anything for the companies until such time as they face a desperate situation. It is the consistent attitude of the Chilean Government not to do anything until there is absolutely no other alternative. Any promises made would not be fulfilled and the stockpile sale would be considered a victory for the Popular Socialists. Mr. Dwyer said the most important feature, for Anaconda, would be recapture of control of sales and pricing. Without the derogation of the present laws the companies would still be subject to the whim of the Chilean Government. Negative action, i.e. failure to issue decrees under the present laws, would not be enough. A new law would be needed to return control to the companies.

When the companies were shown copies of the Chilean draft of a public announcement and the US draft counter proposal,[1] Mr. Milliken had a strongly adverse reaction. In Kennecott's opinion any statement is meaningless. It may have value to the US Government but is of no value to Kennecott. In Mr. Milliken's opinion, any negotiations between the Chilean Government and the companies will be one of extreme pressures and Chile will "give" only when it has no alternative. If the stockpile deal is completed without changing their situation, the companies would have to bring to bear any remaining pressures available to them. Even a formal agreement between the two governments, without concrete prior action, would be valueless in view of Chile's past record of non-performance. The Anaconda officials were not so firm as Mr. Milliken but agreed with his general approach and they, too, feel that a statement from the Chilean Government is valueless.

Mr. Atwood then asked if, since a contract law was an impossible prerequisite, were other steps short of the passage of new legislation acceptable to the companies. Mr. Milliken again reacted strongly against any intermediary position. He stated his company was willing to take the risk of breaking off negotiations if these conditions were not met. However, if the US felt it must reach some agreement in the national interest, there were some steps Chile could take administratively, without resorting to legislation. After a long discussion of what Chile could do unilaterally it was agreed that as a minimum Chile could: (1) derogate decree 245 of January 8, 1945, which established the present exchange rate of 19.37, and issue another decree establishing the rate of 110; (2) derogate that article of decree 397 of February 29, 1952 which provides that a supreme decree shall fix, each three months, the quantities of copper for export. This could be replaced by a decree authorizing the companies to export all production above that required for internal needs of the country; (3) though the Banco Central could be deprived only by law of the power to fix the price paid to the producers, by means of article 11 of law 11151 (Special Powers), the Banco Central could wipe out the overprice. It was made clear that these actions, even if taken by decree, would not be really satisfactory from the viewpoint of the companies inasmuch as the basic discriminatory legislation, which should be superseded by a contract law, would remain in effect as a constant threat of a return to the previous system.

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[1] Neither printed.

Thus, administrative action by the Chilean Government would have limited immediate value, but would fail to provide guarantees for the future. Though the Kennecott officials felt these intermediary actions would not have great value, Anaconda thought they would be of definite advantage as a step toward improvement of the situation. If Chile were to move the exchange rate to 110 or to eliminate the overprice, this would automatically commit the government to the passage of new tax legislation as a means of recapturing the revenues lost. Mr. Milliken would agree to the intermediary steps only if the US retained some power, perhaps by agreeing to purshase 50,000 tons now and the additional 50,000 after performance. Otherwise, Kennecott would prefer the risks of a complete and final solution at this time, with the US and the companies retaining all the bargaining strength possible. However, Milliken subordinated his company's position to the US and Anaconda. In general the position of Anaconda was less firm than Kennecott. It stated it has in Chile the greatest copper mine in the world with reserves equal to the total reserves in the US. In addition, two thirds of Anaconda's total supplies come from Chile whereas for Kennecott it is considerably less than one third. Anaconda cited the advice of their representative in Chile, ex-Ambassador to the US, Rudolfo Michels, who had reported that Chile could not possibly pass a contract law immediately but that progress could be made by steps, the first being the administrative actions described above. Mr. Campbell of Anaconda seemed to have a firmer position than Messrs. Dwyer and Glover but he pointed out the danger that if we forced these two decrees, Chile might take reprisals in the form of a very high tax rate unilaterally imposed. Thus, the administrative action would have value only if the decrees were issued in good faith and with good grace. If they can be achieved only by force and pressure, they may be hazardous.

Mr. Atwood asked how much harm would be done to the companies if the US buys the copper without insisting on prior action, relying only on the public statement of intentions. Anaconda replied that the companies' position would be no worse, but it would mean to Chile that it could get away with its arbitrary practices without being penalized. Mr. Atwood then asked what would happen if we called off the negotiations. The companies replied that Chile would be forced to sell at the market price, but it might also sell to the Soviet bloc. There is an additional threat in that the Banco Central might reduce the price paid to the companies below the present 24½ cents. This points up the necessity of returning control of sales, with full proceeds, to the companies.

In summary, it appeared that the best that could be achieved in straightening out the economic difficulties, short of prior legislation, would be (1) a decree by the President to let the companies sell abroad all copper above Chile's internal requirements; (2) if this decree is politically impossible, the Banco Central could authorize the companies to sell at the market price and retain the full proceeds; (3) establish the 110 rate by decree; (4) issuance by the Chilean Government of a statement of intentions regarding the submission to the congress of a new tax law based on income.

825.2542/10–3053

Memorandum of Conversation, by Milton Barall of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] October 30, 1953.

Subject: Minutes of the Eighth Formal Meeting US–Chile Copper Negotiations October 30, 1953

Participants: Ambassador Jara, Chilean Embassy
Sr. MacKenna, Central Bank of Chile
ARA—Mr. Woodward[1]
GSA—Mr. Gumbel
OMP—Mr. Getzin
OSA—Mr. Barall

The meeting today was held at the request of the Chileans. Mr. Woodward reported briefly on his discussion with Ambassador Jara and MacKenna at the Embassy on October 28[2] where the Chileans had urged the US to buy on the basis of promises while Mr. Woodward urged the Chileans to find some way whereby at least the non-discriminatory rate be eliminated prior to the purchase. He informed the Chileans that, unfortunately, we are still in a situation where we feel unable to go ahead just on the basis of the promises contained in the draft note. He asked what the Chileans had learned in the interim.

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[1] Deputy Assistant Secretary Woodward replaced Mr. Atwood as Chairman of the US negotiating team for the seventh (Oct. 21, 1953) and eighth meetings.

The Ambassador reported that del Pedregal was in touch with the committee in Congress which wanted to know exactly what terms could be reached in Washington. The Ambassador and MacKenna mentioned the 40–60,000 ton proposal which we had submitted and the alternate proposal of substituting 110 for the current 19.37 rate with the idea that the companies could compensate the Chilean Government for what they gained by means of paying the companies a lower price, e.g. below 24½ cents for the copper bought. MacKenna explained that this would have the advantage of doing away with the artificial exchange rate with no loss to the government. He said the Minister of Finance does not refuse to study this formula but in MacKenna's own opinion this latter plan would not be desirable although it would be considered a transitory formula only. Mr. Getzin pointed out that there would be no advantage to the US on this latter arrangement. We had wanted the 110 rate to insure automatic revision of the tax structure. This proposal would fail to accomplish that end. He said we had thought of the 110 rate in combination with a retroactive income tax as a transitory measure but that it would not be desirable from our point of view to eliminate one discriminatory practice and compensate for it by extending another discriminatory practice. Such an arrangement would have bad repercussions in the US if it became public. MacKenna pointed out that the companies were now protesting that the increase in taxes from 50 to 60% retroactively was illegal and therefore such a solution was not desirable for recapturing the loss on the exchange rate.

MacKenna then stated rather disingenuously that he had an idea for a possible solution though he had not tried it on the Ambassador or the Chilean Government. He said we must seek a way for mutual faith and then suggested that a public announcement could be made that 100,000 tons had been sold at 30 cents. The US would pay for 50,000 tons immediately and the balance would be bought after the necessary legislation is passed by the Chilean Congress. There would be no time limit for the additional 50,000 tons.

Mr. Woodward referred to our previous proposal of a 40–60,000 split and said we might make it 50,000 but on the question of price for the second half, it would be a great deal easier to get approval from ODM if a definite time limit could be established. Mr. Gumbel pointed out that the absence of a time limit would give Chile the opportunity to change the market and if the price goes up Chile would be able to sell without living up to its promises. MacKenna said this would not happen since Chile desires to sell its accumulated stock as soon as possible, especially since there were now 120 to 130,000 tons on hand. In reply to our query as to how long it would take to get the necessary legislation, MacKenna replied that Chile would start negotiating with the companies at once on a contract law but he did not know how long it would take to get approval by Congress—perhaps two months. The Ambassador said the problem is one of presenting the situation to the Chilean Congress in its most favorable light. If the administration could avoid the appearance that terms were imposed by the US, there would be a better chance of obtaining the necessary legislation. Mr. Gumbel expressed the opinion that we must make the purchase at a fixed price but there must also be a time limit. Since it was explained that the ODM offer could not be kept open indefinitely, it was finally decided to try to get approval on a six-month period at a fixed price of 30 cents.

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[2] The referenced discussion was reported in telegram 97, to Santiago, dated Oct. 29, 1953, not printed (825.2542/10–2953).

Mr. Woodward asked if del Pedregal had already discussed this proposition with Congressional leaders. The Chileans replied that he had discussed the draft note and the legislation to be required but not the details of this 50–50 proposal because MacKenna had not yet suggested this idea to the Minister of Finance. However if the Ambassador and MacKenna recommended acceptance of this proposal, they believed the Minister of Finance would accept. (*Note:* Of course the 40–60,000 ton proposal had been discussed by Counselor of Embassy, Claude Courand, with del Pedregal, Fenner[3] and Cuevas,[4] and the Chileans were acting on instructions. See Embtel 125, October 29.[5])

The US team said it preferred this proposal to administrative action on the exchange rates but the announcement would have to be worded carefully and the text should be submitted for joint approval. The companies would sign a contract with GSA for the delivery of 100,000 tons at 30 cents, of which 50,000 would be delivered at once for payment in cash. After some discussion it was agreed that the balance would be delivered within a six-month period upon notification from the State Department to the GSA. If the implementing legislation was not passed within the six-month period, the contract would lapse with only 50,000 tons having been delivered. It was made clear to the Chileans, however, that if Chile failed to perform because of an increase in price during the six-month period, the US would still have the authority to call for delivery of the additional 50,000 tons at the agreed price of 30 cents. On this basis the negotiating team agreed to try to get approval from ODM next week. It was agreed that the public announcement could be made as soon as the ODM gives its approval and the necessary Confidential Notes are exchanged. It was suggested to the Chileans that they obtain approval from their government of the exact text of the draft note. MacKenna said this would be done.[6]

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[3] Oscar Fenner Marín, Chilean Minister of Foreign Affairs.

[4] Francisco Cuevas MacKenna, Chilean Minister of Mines.

[5] The referenced telegram, from Santiago, dated Oct. 29, 1953, is in file 825.2542/10–2953.

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[6] By Oct. 30, 1953, U.S. and Chilean representatives had held eight formal meetings, but they reached no conclusion concerning United States purchase of Chile's accumulated copper stocks. In early November, the discussions were briefly transferred to Santiago, where representatives of the Embassy, the Chilean Foreign Office, and President Ibáñez also failed to reach agreement. On Nov. 9, the Chilean Government suspended the negotiations, and recalled its special representative, Luis MacKenna, from Washington.

Editorial Note

On December 16, 1953, the Chilean Government indicated its desire to renew the copper discussions at Santiago (telegram 189, from Santiago, dated December 16, 1953, 825.2542/12–1653). In telegram 157, to Santiago, dated December 30, 1953, the Department of State instructed Ambassador Beaulac to inform the Chilean Government that the United States was willing to resume the copper talks either in Santiago or Washington (825.2542/12–2353), but in telegram 188, to Santiago, dated February 9, 1954, the Department of State indicated that it preferred to have the discussions reopen in Washington because interagency consultation was required (825.2542/2–554). The discussions were renewed at Washington in late February 1954.

611.25/1–1154

Memorandum of Conversation, by Milton Barall of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] January 11, 1954.

Subject: US-Chilean Relations

Participants: Tobias Barros, Chilean Foreign Minister-designate
Ambassador Jara, Chilean Embassy
ARA—Mr. Cabot
OSA—Mr. Atwood
Mr. Barall

Following the luncheon given by Mr. Cabot at Blair House in honor of the Foreign Minister, the latter called on Mr. Cabot in his office for the stated purpose of obtaining a first-hand impression of the problems of the two countries and establishing a cordial relationship with US officials. He expressed his gratitude to Mr. Cabot for the warm reception he had received and for the opportunity to discuss matters of mutual interest. He stated frankly that he was only generally familiar with the situation in Chile and, except for what he had heard from Ambassador Jara, did not have detailed knowledge of bilateral problems such as copper. Referring to the upcoming Caracas Conference,[1] the Foreign Minister said he had received word from General Ibañez that Chile was firmly and decisively on the side of the United States in its desire to root Communism out of the Western Hemisphere and preserve democracy. He explained his pleasure in receiving this information because it coincided with his personal convictions. He said he had observed the operations of Communists in Europe and was aware of the threat they posed.

Barros then referred to economic matters which would be discussed at Caracas, stating these will be of greatest importance to Latin American countries. He expressed the hope that the United States would be "generous" in its assistance to Latin America in solving economic problems. He feels it is urgent that the United States and the other American Republics cooperate at Caracas to come up with a constructive and cooperative program. He referred to Chile's efforts to relieve its dependency on copper and mentioned the importance of developing uranium resources and agricultural production. He was particularly interested in the IBRD–FAO agricultural program[2] in Chile which he had discussed at the FAO meeting in Rome.[3]

The Ambassador added that the Communists, in Chile as in other Latin American countries, were trying to make the most of economic difficulties and to translate them into political difficulties. He expressed the fear that people were receptive to Communist propaganda and that Communism would progress rapidly in Latin America once it gets a foothold. He said a reasonable loan program by the United States, making sound loans only, could head off the menace. He and the Foreign Minister were optimistic about a solution to Chile's immediate copper problem and felt substantial progress had been made by the government in eliminating the political difficulties which had been created by the Popular Socialists and the government now had the go-ahead signal to work out a copper program. Jara said the only questions still remaining concerned the level of production to be attained and the construction of a refinery. Barros said Communist propaganda had been taken care of by the President's firm statement against sales to the bloc, even though a market exists there. He said it was his personal conviction that, willy-nilly, Latin America was in the "Lebensraum" of the United States and it would cause social and economic dislocation in Chile to try to reorient trade and traditional friendships.

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[1] Reference is to the Tenth Inter-American Conference, held at Caracas, Mar. 1–28, 1954; for documentation concerning the conference, see pp. 264 ff.

[2] The program is outlined in a study prepared as a result of a joint IBRD–FAO mission of technical experts to Chile conducted during 1951; the study is entitled *The Agricultural Economy of Chile. Report of a Mission Organized by the International Bank for Reconstruction and Development and the Food and Agricultural Organization of the United Nations at the Request of the Government of the Republic of Chile* (Washington, 1952).

[3] Apparent reference to the Seventh Session of the Conference of the Food and Agricultural Organization of the United Nations, held in Rome, Nov. 23–Dec. 11, 1953; for additional information, see FAO, *Report of the Seventh Session of the Conference* (Rome, 1954).

Mr. Cabot said he was pleased to hear of progress in Chile's plans for the diversification of its economy and was glad to have Chile's collaboration in the struggle against Communism. He mentioned that Secretary Dulles was planning a factual speech[4] for Caracas which would expose Communist methods of infiltration and point out the dangers of Communist operations. With respect to uranium, the Chileans were informed that US cooperation in this field was not contingent on Point 4 funds and that the AEC was prepared to proceed with assistance in development when conditions warrant.

Mr. Cabot stated that while the long-range outlook for copper is very good, there is the immediate problem of the unsold accumulation. He reviewed the copper negotiations in the United States and explained that there had been an unfortunate misunderstanding with respect to timing. There is no basic disagreement between Chile and the United States on what course of action should be followed but Chile wanted the United States to make the purchase before such a course was followed. Referring to the Ambassador's note of August 6,[5] Mr. Cabot said the United States, on the other hand, had always understood that Chile would take corrective action either prior to or in conjunction with the stockpile sale. He described US interest in a stronger Chilean economy and in improved operating conditions for the American companies. Approval of the stockpile purchase had been obtained only on the basis of achieving these two objectives and we would have to show evidence of substantial progress before the sale could be completed. The US did not need copper and stockpile requirements were taken care of by existing contracts. Mr. Cabot told the Foreign Minister that the United States was ready to renew negotiations in Santiago at the convenience of the Chilean government and that Ambassador Beaulac had been informed of this. Mr. Cabot made it clear, however, that the United States was prepared to buy at 30 cents only if this is market price at the time of the contract. He said a drop in the price would create enormous difficulties for us since, by law, purchases for the stockpile could be made only at the going price.

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[4] Apparent reference to the statement made by Secretary Dulles before Committee I of the Tenth Inter-American Conference on Mar. 8, 1954; for text, see *Tenth Inter-American Conference: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 51–58.

[5] See footnote 2, p. 701.

The Foreign Minister said he understood the problem. He described himself as a man of executive temperament, who likes to get things done. To the extent that he is included in the copper discussions and in the formulation of policy, he will work for a rapid solution.

With respect to economic matters at the Caracas Conference, Mr. Cabot said he recognized their importance but stated frankly that the US position had not yet been established. He said the Randall Commission[6] had not yet issued its report[7] and the role of the Eximbank and US loan policy had not been crystallized. He explained, however, that President Eisenhower's point of view was favorable to increased international trade and expressed the hope that ultimate US action would be helpful to Latin American countries. Mr. Cabot mentioned that technical assistance to Latin America would not be cut in fiscal 1955. He also discussed the role of private investment in Latin America from a favorable point of view.

At the end of the meeting, Mr. Cabot said he hoped there would be further discussion and collaboration on the Caracas Conference, either in Washington or in Santiago through Ambassador Beaulac. The Foreign Minister said he was looking forward to a very friendly relationship with Ambassador Beaulac and he was sure they would be able to exchange information and opinions on mutual problems.

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[6] Reference is to the Commission on Foreign Economic Policy (commonly called the Randall Commission after its chairman, Clarence B. Randall), established by President Eisenhower on Aug. 7, 1953. For additional information on the establishment of the Commission, see Department of State *Bulletin*, Aug. 31, 1953, pp. 279–280; for documentation concerning the Commission's activities, see volume I.

[7] Commission on Foreign Economic Policy, *Report to the President and the Congress* (Washington, 1954).

825.2542/2–1954: Telegram

The Ambassador in Chile (Beaulac) to the Department of State

CONFIDENTIAL PRIORITY SANTIAGO, February 19, 1954—5 p. m.

241. (*a*) In order understand clearly relationship which exists in Chile between proposed legislation and proposed stockpile purchase must be borne in mind that because of course of negotiations in Washington and publicity concerning them in Chilean Congress and public have impression which it is impossible eradicate that proposed legislation is by-product of negotiations for purchase stock and results from our insistence expressed during negotiations.

(*b*) Most important factor in copper situation now and future is attitude Chilean Government (including Congress) toward companies.

(*c*) It is in interest Chilean Government give companies reasonable and friendly treatment order they may remain strong and productive and there is evidence government recognizes this.

For example, unfriendly and flippant attitude Chilean officials toward companies reflected in press toward end negotiations in Washington has been absent two months.

During past month government in contrast to earlier attitude has made what appears be sincere effort draft with help companies a bill which government says it believes Congress will approve. Whereas bill less favorable in some respects than bill sent Congress by Gonzalez Videla in 1951, government representatives have reminded us Gonzalez Videla bill never considered by Congress.

Government consulted Senate before drafting present bill and Senate replies to consultation in terms which obligate it morally approve substantially kind bill government has drawn up. This constitutes new and presumably important step in direction of solution copper problem.

Government, furthermore, has pledged it will fight for bill in Congress and that President will use veto power to remove changes which affect companies' interests. No similar pledge received from Chilean Government in past.

Government has stated Liberal and Conservative Parties and certain members Radical Party have promised support bill in Congress. Probably more accurate say leaders Liberal and Conservative Parties have agreed support bill as described to them. Foreign Minister says government also expects support of PAL.

(*d*) There are strong reasons for government wish to push legislation through Congress.

Press urging solution problem through legislation.

There is urgent need improve situation companies apart from government's desire US purchase stock. Probable companies will reduce operations in Chile soon, but if improved conditions not created reduction eventually will be on more drastic scale even though stock purchased. Government told this.

Chile requires additional cooperation from US including loans, particularly for agriculture, and hopes loans forthcoming if it solves copper problem. Until problem solved, Embassy considers mistake grant loans to Chile and Chile has no right expect loans. Some Chilean officials acknowledge this.

(*e*) In any consideration of whether and when US should buy stock following considerations are pertinent: Chileans' desire US purchase stock has strongly influenced government to draw up present bill. We cannot assume that desire would influence Congress to approve bill. Anaconda believes unpurchased stock would defeat legislation. Kennecott's local representative has held this view but Milliken has attached importance to pressure value unpurchased stock. He has tended also to be indifferent to possibility bills being defeated. Government says purchase stock prior to consideration of bill by Congress would facilitate approval. Companies, Chilean officials and advisers consider Congress will not approve bill unless US first purchases stock. They consider there is a chance of approval if US has purchased stock.

If Congress approves bill and we subsequently purchase stock immediate position companies will have improved, but there will be resentment against companies for having obtained improved treatment through pressure exerted by US. To extent this resentment exists it will be harmful to companies and probably result in worse treatment by government later.

If stock not purchased by time legislation considered by Congress many and perhaps majority members Congress will oppose bill as protest against US pressure. Some American company officials consider no member Congress will defend bill. If bill fails because of issue of pressure, position of companies and of US in Chile will gravely deteriorate.

If we purchase stock prior approval bill worst that may happen is Congress will not approve bill or will approve less favorable bill even over President's veto. Anaconda officials consider latter only remote possibility. (Braden officials not here today for consultation.) If bill not approved we then will own stock. We will have made contribution to stability international copper market. Companies will be in same position with relation to government as now (except in remote contingency worse legislation approved). We will have abandoned position which company officials who have participated in conversations with government believe has lost its bargaining value. Way will still be open for new legislation and internal pressures for new legislation or for administrative action will remain. When companies have reduced operations in Chile these pressures will be even stronger than now.

If we do not purchase stock and if Congress does not approve legislation it can be anticipated that price copper will fall; copper mining industry throughout world will be affected; companies will drastically reduce operations in Chile; overprice now being collected by government will diminish and, perhaps, disappear and total government revenue derived from companies will sharply decline. This will precipitate political crisis with possibility that military dictatorship headed by Ibanez or someone else will be set up. Communists would, of course, make great effort bring about condition of anarchy they could take advantage of.

We will be blamed by many for these results.

If crisis should develop there would be pressure from leftists for expropriation, but believe present government would recognize expropriation would make its copper problem worse and would also create new problems which country could not solve or withstand. What attitude a successor government would take cannot be predicted.

There also would be pressure from leftists and probably from others to sell to Russia. Present government has said it will not sell to Soviet orbit. Successor government might take different view. If stock unsold possible sale to Soviet orbit will become lively political issue.

(*f*) The two large American companies tend to reach somewhat different conclusions on basis foregoing considerations.

Shortly after his arrival here Milliken of Kennecott tended to argue that principal pressure on Congress to approve legislation will come from Chile's desire that we purchase stock and that once we purchase stock pressure will be removed. However, he is least familiar with local background and his attitude believed dictated by New York. Michaelson has not expressed that attitude.

Representatives Anaconda, which has greatest stake here, believe value stock purchase as a source of pressure to obtain satisfactory legislation is played out and that if we persist in using it as pressure it will become liability instead of asset as it has been up to now.

(*g*) Embassy agrees with Anaconda.

BEAULAC

825.2542/2-2754

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Under Secretary of State (Smith)[1]

CONFIDENTIAL [WASHINGTON,] February 27, 1954.

Subject: Chilean Copper Purchase

Discussion:

The Chilean Government has shown us, and is prepared to introduce immediately after Congress reconvenes on March 2, a more or less satisfactory bill regarding the American copper companies operating in Chile. Ambassador Beaulac and Anaconda now strongly recommend that we make the purchase of 100,000 tons of copper as provided by the DMB decision of last August. Kennecott is unenthusiastic but state that they will not oppose a decision to purchase.

Recognizing that there is a possibility that the Chileans will walk out on us if we purchase before the bill is enacted, I nevertheless am inclined to agree that the time has come to make the purchase. We must remember that the Chileans have steadily felt that we were employing pressure tactics and it is Beaulac's opinion that further delay is more likely to defeat our purpose than to accomplish it. At worst we will have a reasonably useful, marketable commodity at the market price.

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[1] Drafted by Assistant Secretary Cabot, concurred in by Assistant Secretary Waugh and Assistant Secretary-designate Holland.

Recommendation:

That you sign the attached letter (Tab A),[2] which Mr. Woodward will prepare in my absence, recommending to Mr. Flemming the purchase of this copper.

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[2] No attachment was found with the source text; for the referenced letter, sent under date of Mar. 1, 1954, see *infra*.

825.2542/8–2853

The Acting Secretary of State to the Director of the Office of Defense Mobilization (Flemming)[1]

SECRET [WASHINGTON,] March 1, 1954.

MY DEAR MR. FLEMMING: I refer to your letter of August 28, 1953,[2] addressed to the Secretary of State expressing the consensus of the Defense Mobilization Board that it was in the national interest to purchase up to 100,000 tons of copper at the market price prevailing at the time of delivery provided that Chile agreed not to sell copper to the Soviet bloc and that it "should agree to eliminate present economic practices which jeopardize American interests in that country and render it an unstable source of US copper supply".

During the months which have elapsed protracted negotiations have been conducted between the United States Government and the Government of Chile concerning the conditions under which the United States would be willing to purchase for the United States stockpile 100,000 tons of Chilean copper. Simultaneously, but independently, the Government of Chile carried on negotiations in Santiago, Chile, with the representatives of the two United States owned Chilean copper companies. The latter negotiations have culminated in preparation of the attached bill[3] to be submitted to the special session of the Chilean Congress when it convenes on March 2. Though the bill is not as favorable a solution of the problem as the Department would have desired, it does embody the essentials of the principles which were put forward by the United States negotiators. If enacted in its present form, the bill will tax income rather than production, provide a non-discriminatory exchange rate, eliminate the price differential which now goes to the Chilean Government, make copper available to United States consumers at market prices, and repeal the present laws which place control of sales under the Chilean Government instead of the American producers. Although the basic tax rate of 75% is very high, it represents a considerable reduction for the American companies whose total taxes now range between 84 and 94%.

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[1] Drafted by Mr. Atwood.

[2] *Ante*, p. 723.

[3] No attachment was found with the source text.

It is the consensus of observers most familiar with Chilean economic and political problems, including our Ambassador in Chile, that this is the best bill obtainable under prevailing conditions and that this is the strategic time for the United States to purchase the accumulated copper. It is our judgment that in this way we will have derived the maximum advantage inherent in United States willingness to purchase the copper stocks, and any effort on our part to force further concessions, or delay the purchase, would be likely to operate against the best interests of the United States and of the American producing companies. Should we further postpone purchase of the copper, it is almost certain that the bill will either not be enacted or that seriously damaging amendments would be passed. Chile's copper problem and its general economic situation would undoubtedly take a sharp turn for the worse and cause renewed agitation for nationalization of the American-owned mines and for sales of copper to the Soviet bloc. If the Government should be overthrown in the ensuing economic crisis, many Chileans would blame the United States. There would be much anti-US sympathy for Chile in Latin America and the Communists would be provided with a powerful propaganda weapon.

I do not wish to contend that all the arguments are in favor of the immediate purchase of the copper. The unfavorable aspects of the proposed legislation are recognized; it is impossible to give absolute assurances that the bill will be enacted in its present form; the Congressional debates are likely to produce strong anti-US propaganda from the opponents of the measure, and we cannot be sure that the Government will not be overthrown in the near future despite our actions. Unfortunately there is no agreement between the two American producers on what the United States should do at this time. On February 19 the Board of Directors of the Kennecott Copper Corporation rejected the legislation as unsatisfactory and inadequate from that Company's point of view. However, this Company has not taken a stand with regard to the United States course of action. It neither approves nor disapproves the United States purchase of surplus stocks. The President of Kennecott has indicated informally that he will not pass judgment on the decision of our Government. On the other hand, the Chairman of the Board[4] and the President of the Anaconda Copper Mining Company—whose production in Chile is by far the largest—traveled to Washington on February 23 for the express purpose of urging the Department of State negotiators to make the purchase at once in order to facilitate passage of the bill.[5]

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[4] Cornelius Kelly.

[5] A memorandum of conversation between officials of the Anaconda Copper Mining Company and the U.S. negotiators, dated Feb. 23, 1954, is in file 825.2542/2–2354.

It is my opinion that Chile's action to date, though it is still to be completed, constitutes agreement to the maximum degree feasible, in view of the balance of authority between the executive and legislative branches of the Chilean Government, for purposes of eliminating the present economic practices toward which the Defense Mobilization Board directed its authorization of August 28. The proposed legislation has received the unanimous endorsement of the Chilean President and the Cabinet. In addition, the President has the power to veto specific provisions in the law and has promised to use the veto against any undesirable amendments which may be introduced by the Chilean Congress. The Chilean Senate, in advance consultation with the Administration, recommended this type of legislation. Chile has consistently abstained from copper shipments to the Soviet bloc and has also reassured the United States that it will institute the recommended IC/DV system designed to strengthen safeguards against the shipment of strategic copper to the Soviet bloc. The bill itself by returning control of copper sales to the American companies would also greatly improve the possibility of preventing sales to the Soviet bloc in the future.

In the long-range interests of the United States and of the American companies concerned, I recommend that the purchase of 100,000 tons of copper for the strategic stockpile be completed at once at the prevailing market price of 30 cents per pound delivered in the United States. Since the bill will probably be presented to the Chilean Congress on March 2, it would be most desirable that the General Services Administration be authorized to sign a contract with the American producing companies immediately.

Sincerely,

WALTER B. SMITH

Eisenhower Library, Eisenhower papers, Whitman file

Summary Memorandum Prepared in the Office of Defense Mobilization[1]

SECRET

WASHINGTON, March 11, 1954.

SUMMARY MEMORANDUM ON CHILEAN COPPER PROPOSAL

On August 26, 1953, the Defense Mobilization Board agreed that (1) it would be in the national security interest to purchase up to 100,000 short tons of Chilean copper at the market price prevailing at time of delivery; (2) any such purchase should be accompanied by an agreement on the part of Chile not to sell copper to the Soviet Bloc; and (3) as a condition to the purchase, the Chilean Government should agree to eliminate present economic practices which jeopardize American investments in that country and render it an unstable source of U.S. copper supply. On the basis of the preceding conditions, negotiations were thereupon begun with the Chilean Government. The Defense Mobilization Board again discussed the problem at its meeting Wednesday, March 10,[2] when it reviewed a letter from the Department of State to the Director of the Office of Defense Mobilization.[3] This letter outlined the status of negotiations as of March 1, and recommended that the proposed purchase be completed at once at the prevailing market price of 30¢ per pound delivered in the United States.

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[1] The drafter of this memorandum, presumably prepared for President Eisenhower, has not been identified.

With respect to point (1) above, it should be noted that about 76,000 tons of Chilean copper are now in storage in the United States. Moreover, there are now in storage in Chile about 103,000 tons. Since 24,000 tons of this supply could be sold at once to the U.S. Government with freight to the U.S. allowed, it would be feasible to get immediate delivery of the total 100,000 tons "at the market price prevailing at time of delivery," namely, 30¢.

With respect to point (2) above, it was stated by the Department of State representative that the executive branch of the Chilean Government had now agreed to this condition, and that as soon as written confirmation of this is received, the Department of State will consider that this condition has been met.

With respect to point (3) above, it can be noted that the legislation in question has been introduced, that it has received the unanimous endorsement of the Chilean President and his Cabinet, and that the Chilean Senate has recommended this type of legislation. Moreover, the President has agreed to veto any undesirable amendments that may be introduced by the Chilean Congress. Nevertheless, no assurance can be given that the described legislation will be passed. It is held that any suggestion that the U.S. is using its economic power to dictate Chilean legislation may cause the failure of the Bill to pass, and that the only way to demonstrate convincingly that the Chilean Congress is free to make its own decision is to sign a purchase agreement at once, in advance of the passage of the legislation.

The question to be decided is whether we should contract to purchase the copper under this condition, assuming that written confirmation has been received of the agreement not to sell copper to the Soviet Bloc.

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[2] In a letter dated Mar. 12, 1954, Mr. Barall informed Counselor of Embassy Courand at Santiago that at its meeting on Mar. 10, the ODM decided to refer the question of purchasing Chilean copper to the Cabinet (825.2542/3–1254).

[3] *Supra.*

Eisenhower Library, Eisenhower papers, Whitman file

Minutes of a Cabinet Meeting, Held at the White House, 10:05 a.m., March 12, 1954[1]

CONFIDENTIAL

[Here follow a list of those present (25) and discussion of matters unrelated to the purchase of Chilean copper.]

Purchase of Chilean Copper—Dr. Flemming reviewed the Defense Mobilization Board consideration of a proposal for purchasing 100,000 tons of Chilean copper at the prevailing market price provided the Chilean Government agrees not to sell copper to the Soviet Bloc. He placed before the Cabinet the question as to whether the US should, before making the agreement, insist upon passage by the Chilean Government of legislation eliminating economic practices which jeopardize American investments in that country.

Gen. Smith favored completion of the agreement prior to passage of the legislation so as to avoid any charge of pressure on the Chilean Legislature. Asst. Sec. Wormser noted the dependence of the US on Chile for copper Sec. Humphrey agreed with Gen. Smith even though he disliked many aspects of the proposal and he urged care to prevent the development of any similar situation in the future where the US would have great need for Chilean copper.

In a discussion of the impact of the agreement on domestic copper producers. Gen. Smith noted that the action would tend to support the price at home and Mr. Flemming pointed to current improvement of the domestic copper situation.

It was agreed that the purchase should be carried through without insistence upon the Chilean legislation.

[Here follows discussion of other matters.]

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[1] Under Secretary Smith represented Secretary of State Dulles at this meeting. The minutes are signed by Cabinet Secretary L. Arthur Minnich.

825.2542/3–1854

Memorandum of Conversation, by the Deputy Director of the Office of International Materials Policy (Evans)

SECRET [WASHINGTON,] March 18, 1954.

Subject: 1. Purchase of Chilean Copper
2. Brazilian Wheat Barter

Participants: U—General Smith
Dr. Flemming—Director, Office of Defense Mobilization
Mr. Kendall—General Counsel, Office of Defense Mobilization
Mr. Wormser—Assistant Secretary, Interior Department
E—Mr. Kalijarvi OMP—Mr. Evans

1. Purchase of Chilean Copper.

The Under Secretary opened the discussion by referring to a "ticker" item to the effect that the Chilean Cabinet had announced its intention of selling copper to the Soviet bloc. He then read aloud the telegrams[1] from Santiago which gave the text of the Chilean Cabinet announcement and which left a clear implication of the intention to explore the possibility of sales behind the iron curtain. One aspect of the Chilean Cabinet statement to which the Under Secretary, Dr. Flemming and Mr. Wormser attached particular importance was the indication that the Chilean Government would not permit the American companies in Chile to reduce their production. The Under Secretary pointed out that if this had the effect of continuing to pile up surplus copper stocks in Chile, part of the purpose of the proposed purchase would be defeated.

There was some discussion as to whether the Chilean Cabinet's action required any reconsideration of the United States Cabinet decision to purchase 100,000 tons of copper. It was agreed that this was not necessary, since the United States Cabinet decision was clearly conditional upon the Chileans giving satisfactory assurances with respect to East–West trade.

Dr. Flemming then indicated that his purpose in requesting the meeting had been to discuss the worry that Mr. Wormser and others had as to the possible market effect of the purchase, and he suggested that some of the risk might be removed if we were to spread the purchase of the copper over a period of several months. Mr. Kalijarvi pointed out that the question of market effect had been discussed in the Defense Mobilization Board and presumably was also a consideration before the Cabinet at the time it made its decision. The decision was made in spite of any danger that might be involved. Mr. Evans asked Dr. Flemming what he had in mind in connection with a gradual purchase. Dr. Flemming indicated that purchases would be on the basis of market price at the time of delivery, and that this would reduce the total price to the United States Government if the market should fall after our initial purchase. Mr. Evans pointed out that it had been contemplated throughout the negotiations that Chile would be able to make prompt delivery of the entire 100,000 tons, and that the kind of arrangement suggested would be considered by the Chileans to represent bad faith on the part of the United States and would probably do more harm to our relations than no purchase at all. The Under Secretary said that this was his view, and Dr. Flemming agreed that he found the arguments persuasive.

The conclusion was that Ambassador Beaulac should be informed that we would take no action concerning the purchase or notification to the Chileans pending the Ambassador's further analysis and a statement from him as to whether authority to tell the Chileans of the decision to purchase would be helpful in obtaining the desired East–West trade assurances. The Under Secretary also said the Ambassador would be informed of the concern which was felt here about a cutback in United States production if this cutback were not matched by a similar reduction in Chile.[2]

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[1] Not printed.

[Here follows discussion of proposed barter of surplus wheat for Brazilian monazite.]

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[2] In telegram 265, to Santiago, dated Mar. 24, 1954, the Department instructed Ambassador Beaulac to inform President Ibáñez that the U.S. decision to purchase 100,000 tons of Chilean copper was contingent upon assurances from Chile that it would (1) reverse or interpret favorably the Cabinet statement concerning the sale of accumulated copper stocks to Soviet bloc countries, (2) institute the IC/DV system, and (3) not prevent the copper companies from making reasonable decreases in production (825.2542/3–2454).

825.2542/3–2654

The Secretary of State to the Director of the Office of Defense Mobilization (Flemming)[1]

CONFIDENTIAL [WASHINGTON,] March 26, 1954.

MY DEAR MR. FLEMMING: The Department is now in receipt of information from Ambassador Beaulac that the President of Chile and the Cabinet approve the continued prohibition of sales of copper, from whatever source, to the Soviet orbit, and a note[2] to this effect has been provided. The Chilean Government has also agreed to adopt the IC/DV system as a control measure.

With respect to reasonable curtailment of production by the American producing companies, the President, the Minister of Foreign Relations and the Minister of Finance have promised to permit necessary cutbacks after April 3 if the companies are unable to reach an agreement with the mining unions before that date. The cutbacks would be in addition to the substantial cutbacks that have already taken place. These were detailed in a letter of March 23[3] to Mr. Wormser, a copy of which was sent to you.

The Ambassador has therefore now informed the Government of Chile, in accordance with our instructions, that the United States Government is prepared to proceed with the purchase of copper.

In pursuance of the Cabinet decision of March 12, it is requested that you authorize the General Services Administrator to negotiate at once with the companies a contract for the purchase of 100,000 short tons of Chilean copper for the stockpile at 30 cents per pound.

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[1] Drafted by Deputy Director of the Office of International Materials Policy Clarence W. Nichols and Mr. Barall.

[2] Reference is to Chilean Foreign Office note no. 3, dated Mar. 25, 1954; a copy and translation of the note were transmitted to the Department of State under cover of despatch 763, from Santiago, dated Mar. 26, 1954 (825.2542/3–2654).

[3] Not found in Department of State files.

Sincerely yours,

For the Secretary of State:
THORSTEN V. KALIJARVI
Acting Assistant Secretary
for Economic Affairs

725.00/5-1254

Memorandum by the Director of the Office of South American Affairs (Atwood) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

CONFIDENTIAL [WASHINGTON,] May 12, 1954.

Subject: The Situation in Chile

It is almost impossible to talk with any one familiar with the situation in Chile without getting a very gloomy picture. There appear to be no hopeful signs on the horizon as political and economic problems multiply, with no effective program to combat them. Chileans apparently feel that when conditions appear to be hopeless the US will step in and provide the necessary assistance.

Political

After a demagogic election campaign in 1952 in which Ibañez and his supporters promised to curb the inflation and end graft and corruption, Ibañez was elected by a 47% plurality in a 4-way race. The popular vote was largely a repudiation of the organized political parties which had ruled for more than a decade in various coalitions whose backbone was the Radical Party. In November 1952 Ibañez was inaugurated and tried to form an effective Cabinet composed partly of old cronies who had served with him during his first administration (1927–31), and partly of the extremist or independent splinter parties which had rallied around him. As it became obvious that no one could implement the wild campaign promises which had been made, and as it proved to be impossible to weld into a harmonious political coalition the various extremist groups of both the right and left, a series of internal quarrels broke out which led to almost continuous cabinet changes, with each new grouping apparently weaker than its predecessor. Ibañez failed to achieve unity or to exercise the strong leadership which the voters had hoped for and his administration thus far has been characterized by the absence of political leadership—almost by the absence of effective government. This situation is especially grave in Chile, which has averaged about 20 political parties recently, with none representing as much as 20% of the popular vote. Congress accurately reflects this fragmentization and Ibañez has failed to develop the sort of coalition Cabinet which would provide even a temporary majority. In the March 1953 Congressional elections the various Ibañez groups won about half the seats of the Chamber of Deputies, but only ⅓ of the Senate. With the fourth new cabinet already in disrepute and torn by internecine ideological battles, there is talk of the creation of a really competent cabinet of qualified technicians, non-political or with a broadened political base, to cope with the mounting economic problems. There is also a report that Ibañez has decided to dismiss Congress and rule by decree, either alone or in a Junta, with the support of the armed forces. The military holds the balance of power but for the past 20 years it has been non-political and has developed a tradition of non-interference.

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[1] Drafted by Mr. Barall.

Economic Situation

Since 1940 Chile has followed a program emphasizing industrialization at the expense of agricultural production. Socialist or frankly Marxist economic theories have been in the ascendency and have left their mark in increasing government controls over the economy. The Ibañez regime has strengthened the trend toward a centrally directed economy by the creation of INACO (a state trading corporation patterned after the Argentine IAPI), a Ministry of Mines, and a State Bank. There have been efforts to take over the Central Bank, the steel industry, the nitrate industry, and to make the copper industry subservient to the needs of the government. Controls over prices and foreign-exchange rates have been intensified and the government is now trying to pass an "Economic Crimes" bill to force compliance with administrative regulations under threat of heavy fines or imprisonment. Fortunately, lack of control over Congress has prevented the adoption of the more extreme economic projects and the political parties in favor of a sounder economy continue to frustrate them.

With the tapering off of the shortages and high prices brought about by the fighting in Korea, the Chilean economy has started to run downhill and deficits in the national and foreign-exchange budgets have mounted. The national budget in 1952 was 29 billion pesos; in 1953—47 billion; and for 1954 it is 62 billion. With no corresponding increase in productivity, the natural result has been inflation, which in 1953 amounted to 56%. The 1953 foreign-exchange budget included a $70 million deficit which was to come from future receipts. However, the 1954 budget, instead of taking up the slack, shows a gap of $98 million, with estimated expenditures at $390 million as compared with estimated receipts of $292 million, and almost all of the missing funds in dollars. To make matters worse, $20 millions of the latter sum is to come from anticipated loans. Exchange difficulties have led Chile to resort more and more to barter or compensation agreements with other countries, Argentina, Germany, etc. and have turned Chile's emphasis toward the soft-currency areas at the expense of dollar trade. Recently, even copper has been sold out of the dollar area and this, together with artificial exchange controls, has intensified the present balance of payments difficulties so that Chile may have to default on its debt service next month. In June payments of 5½ million come due. Our Embassy reported on May 4 that dollar balances in the Central Bank were below 5 million. Over $10 million is owed for oil imports and the companies threaten to cease shipment of fuel.

The accelerated inflation (14% in the first 3 months of 1954) has been accompanied by insistent demands for wage increases for labor, both private and public, to which the government has almost invariably yielded. At the end of 1953, to avoid a general strike threatened by the school teachers, the government granted an annual bonus to all its employees. The money for this payment had to be borrowed or printed. Mounting labor costs, higher costs of production, higher prices, and greater currency circulation have kept the inflationary cycle going, with the government either unable or unwilling to call a halt. The fluctuations in the curb rate of exchange and the reported flight of capital indicate loss of confidence in Chile's currency.

Copper

Under present legislation, the American copper producers provide about 50% of government revenues and about 65% of all foreign exchange under a complicated tax system which keeps the cost of production artificially high and taxes away 80 to 90% of the total earnings, as follows:

(a) 3% import duty on mining supplies.
(b) Cost of production returned at 19.37 pesos to the dollar as compared with the bank rate of 110 and the curb rate of over 300.
(c) The "overprice" or spread between about 24 cents and the sales price of about 29 cents goes entirely to the government.
(d) Income tax of 60%.

In addition, the Central Bank has been placed in control of sales of copper, the government has engaged in price fixing, and other laws interfere with control over the industry by the American mine owners. Small wonder that production has increased everywhere in the world except Chile.

When Chile's artificial price of 35½ cents broke down and unsold surpluses accumulated, the US was requested to buy 100,000 tons for the stockpile as part of Chile's program to curb inflation, return the copper industry to a competitive basis, and strengthen the economy. After months of fruitless negotiation the US decided to buy the copper, partly with the hope that this would enable Chile to strengthen its economy and enact new copper legislation which, though it embodies several undesirable features, would also provide:

(a) a single tax on income, starting at 75% and decreasing as production is stepped up.

(b) a non-discriminatory exchange rate (now 110 pesos, though this is artificial).

(c) sales at world prices.

(d) return to the companies of control over sales.

Apart from this legislation, which was introduced in the Chamber of Deputies March 2, with no progress so far, Chile renewed its pledge not to sell to the Soviet bloc and promised to adopt the IC/DV control system to prevent transshipments to iron-curtain countries. To Chile's credit, it should be stated that despite the political difficulties caused by this promise, so far its record of compliance has been quite good. However, the question of sales to the Soviets remains a leading political issue and we can anticipate periodic threats.

Chile's surplus is still over 50,000 tons and production has been curtailed correspondingly. Last month sales exceeded production for the first time in almost a year and the prospects for the copper industry in general are improving. However, it remains to be seen whether Chile will get its full share of the market.

Nitrate

The nitrate and iodine industry is the second largest producer of foreign exchange but Chile's natural product no longer enjoys the monopoly it once had. Synthetic production has been stepped up throughout the world, frequently with the aid of Marshall Plan funds or Eximbank loans. Chile's nitrates, burdened with high taxes, artificial exchange rates and antiquated methods of production, cannot compete freely with synthetics. Nitrate is politically important in that the northern provinces live almost exclusively on this and the copper industry.

US Private Investment

In addition to heavy investments in copper and nitrate, US capital is found in iron mines, the steel mill, industry, sales, and in electric power. American and Foreign Power has an investment in Chile of almost $100,000,000 but its operations are hampered by government competition in generating power, inadequate sales rates, artificial exchange rates, and lack of dollars for the remittance of earnings. With difficulties experienced by almost all US investors in Chile, it is understandable that new investments have fallen to a small trickle.

Agriculture

Agricultural production has been falling off in Chile for many reasons, including:

(a) Emphasis on industrialization.
(b) The semi-feudal status of agricultural labor.
(c) Government price controls.
(d) Inadequate rainfall or irrigation.
(e) Lack of capital investment in machinery and other means of improving production.
(f) Inadequate roads and distribution system.
(g) Lack of land conservation.
(h) Inadequate use of fertilizers.

As one result, Chile has switched from a net exporter of wheat to an importer of sizeable quantities—about 250,000 tons for 1954. Shortages of beef, sugar, dairy products and edible oils further complicate the picture and cause a heavy drain on foreign exchange availabilities. Chile's current balance of payments situation has led to speculation that there may be no funds for food imports later this year and Chile may face a food shortage and perhaps some actual starvation. This is a ridiculous situation for a country with agricultural prospects as good as Chile's. Rehabilitation of agricultural production is the major target in Chile. The FAO/IBRD study[2] calls for increased production of 38% over an eight-year period with an investment of about $280,000,000, about ⅓ in foreign currency. Chile has been preparing detailed plans for the implementation of this report for the past year but none of the projects is complete.

Our FOA program in Chile lists increased agricultural production as its chief objective but progress through the Servicio operation takes a long time, especially in the absence of capital investment. Within the limits of the program we are attempting to improve soil conservation methods, improve the livestock and dairy industry, develop hardier strains of wheat, improve irrigation, etc. Through CARE some dried milk has been distributed in Chile but there has not been any large-scale program involving the use of US agricultural surpluses. After stockpile objectives are revised and funds set aside for this purpose, it may be possible to exchange agricultural products for copper or other strategic materials from Chile. If actual starvation threatens Chile, the US would probably make a grant of foodstuffs, as it has in other areas of the world.

Loans

The Eximbank has extended to Chile loans of about $138,000,000 and the IBRD about $37,500,000. In addition, Chile has drawn its gold tranche of 12½ millions from the IMF and it borrowed 12½ million from the National City Bank. There are also short term commercial debts to be paid and balances due under compensation agreements. Total reserves have dropped in the year March 31, 1953–54, from $115 to $81 million, with almost $42 million in gold. Many close observers feel that Chile is about loaned up and requests for further loans would not be approved readily. The IMF and the two banks would be likely to defer any consideration of loans until the inflation has been curbed. Chile would be interested in the following:

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[2] See footnote 2, p. 734.

Eximbank	(a) A line of credit of $100,000,000 for economic development.
	(b) $14 million for the nitrate industry.
IBRD	(a) Agricultural loans, up to $100,000,000.
	(b) $17 million for modernization of coal mines.
	(c) $25 to 35 million for rehabilitation of railroads.
IMF	Additional drawing of $12½ million.

However, none of these is a likelihood under the present circumstances and Chile may have to sell off some of its gold reserves to meet necessary payments this year.

General

No country in Latin America has had more friendly cooperation or more economic assistance (on a per capita basis) from the US than Chile. Despite this, anti-US sentiment runs quite high and many people in responsible positions really believe that Chile is being exploited by the US or by US private capital. While striving to preserve such goodwill as we still have, we should make it clear to Chile that for continued economic development it will have to rely primarily on its own resources and on its willingness to permit competitive and profitable operation of Chilean industries and on its ability to attract new capital investment. Any further US measures of assistance to Chile should come only after visible signs of progress in combatting inflation and strengthening the economy, probably by a reversal of the economic policy which now prevails. Except in case of a need for emergency food or if US national interest should dictate, the US should not even discuss any measures of assistance to Chile until copper legislation is enacted in accordance with the promises of the administration and preferably not until there is some evidence of economic responsibility on the part of the government.

825.2542/6–454

Memorandum by the Director of the Office of South American Affairs (Atwood) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

CONFIDENTIAL [WASHINGTON,] June 4, 1954.

Subject: Chile's Request that the U.S. buy more Copper.

Despite Chile's claims to the contrary, its copper difficulties are due almost entirely to government control over the industry, including the establishment of a rigid minimum price which led to the eventual accumulation of half a year's unsold production. Ambassador Jara's first request to the U.S. to buy copper was made in July 1953, as part of a plan to solve the overall copper problem and establish a new relationship with the companies. By August, the original amount of 25,000 tons had grown to 100,000 and a representative of the Central Bank was sent to the U.S. to help the Ambassador negotiate. They informed Mr. Cabot on August 4 that the stockpile purchase would be part of an overall settlement of the copper problem, including a "mutually satisfactory" new law improving operating conditions for the American companies and making Chile's copper competitive again. This talk was followed by a Chilean note, August 6,[2] which claimed "Chile has placed in operation a complete plan for unification of the exchange system and for economic stabilization, destined fundamentally to establish a sound economy and to combat inflation, which has reached alarming proportions. The government is determined to deal with the inflationary process by attacking its most pernicious causes, i.e., an unbalanced budget, monetary and credit expansion, inadequate orientation of public and private investments". The note then argued that the success of this plan was contingent on the purchase by the U.S. of 100,000 tons of copper. (*Note:* None of this has taken place. Instead, the rate of inflation has increased, and for the period April 1953–April 1954 reached 78.9%.)

The U.S. took the Chilean promises at face value and agreed, after a difficult decision by the DMB, to negotiate for the copper. The U.S. desired only that Chile implement its promises with respect to its own economy and the copper industry, and that it adopt the IC/DV system to prevent sales to the Soviet bloc. During the course of the negotiations, the Chilean position changed and our efforts to secure positive action by the Chilean Government prior to the stockpile purchase were labeled intervention in internal affairs. Chile also tried to extract a higher-than-market price or a line of credit of $100,000,000 as compensation for not selling to Communist countries. As you recall, the negotiations were deadlocked for several months and the U.S. Cabinet finally agreed to the purchase on the strength of Chile's promises not to sell to the Soviets and to pass new legislation for the copper industry. The only promise kept by Chile so far concerns sales to the Soviets and we can never be sure that it will not be broken if Chile receives an attractive offer.

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[1] Drafted by Mr. Barall.
[2] See footnote 2, p. 701.

The lesson to be derived from the above seems to be that we should not agree to consider any proposal until Chile has first implemented its previous promises—in Chile's own interest. The $100,000,000 Chile earned on the copper "overprice", at a time when its entire economy was booming and its balance of payments was favorable, did not enable the country to balance its budget, stop inflation, or spur economic development. The $60,000,000 stockpile purchase now under way (first payment of almost $19,000,000 was made to Anaconda June 3) has not helped Chile solve any of its problems. In his annual message to Congress on May 21,[3] President Ibanez tried to blame the falling copper price and the paralyzation of sales for the country's failure to balance the budget. He argued that external conditions were responsible for Chile's economic difficulties and nowhere did he suggest an anti-inflationary economic program. Under these conditions, if we bail Chile out once again, it would appear that we are aiding neither Chile nor the U.S., but just postponing and making more difficult the eventual day of reckoning.

As a practical matter, I am certain the ODM would not take under consideration the purchase of a substantial amount of copper over an extended period of time. Nor do I believe we could have the Cabinet again consider a copper purchase while Chile's recent promises are still unfulfilled and when President Eisenhower is facing difficult decisions on the subject of imported versus domestically-produced metals.

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[3] President Ibáñez's annual message was reported in despatch 922, from Santiago, dated May 25, 1954, not printed (725.21/5–2554).

825.2311/11–2754

Memorandum by the Director of the Foreign Operations Administration (Stassen) to the Secretary of State

CONFIDENTIAL WASHINGTON, November 27, 1954.

Subject: Chile Wheat Emergency

In August of 1954, FOA submitted Chile to the Department of Agriculture for priority consideration in Public Law 480[1] because of our appraisal that there would be a serious food need in that country.

Thus far, the Department of State has not concurred in the urgency of the need, and Assistant Secretary Holland specifically requested that all Public Law 480 programs be postponed until after the Rio Conference.

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[1] Reference is to the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), approved July 10, 1954, for text, see 68 Stat. 454.

State Department cable No. 176 of November 22nd from the United States Ambassador in Santiago and Tousfo 148 of November 24th[2] from our Mission Chief in Santiago both indicate an extremely critical situation reflecting the possibility of a bread shortage within the next few weeks.

A CIA evaluation has also indicated a critical situation.

Therefore, I respectfully suggest further consideration by the Department of State of its position. If authorized, FOA could proceed with some early emergency wheat shipments, pending a decision on the total Public Law 480 program for Chile.[3]

HAROLD E. STASSEN

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[2] Neither printed (825.2311/11–2754).

[3] A letter to Mr. Stassen by Secretary Dulles, drafted by William Belton of the Of-
fice of South American Affairs, with the assistance of Mr. Atwood, dated Jan. 7, 1955,
reads in part as follows: "a Public Law 480 program for Chile, involving wheat and cot-
tonseed oil, has been agreed upon within this Government, and instructions have gone
forward to our Ambassador in Santiago to initiate negotiations with the Chilean authori-
ties. In the meantime, the Department is exploring the possibility of meeting a Chilean
Government request to expedite the shipment of 4,500 tons of cottonseed oil under the
proposed agreement prior to completion of negotiations." (825.2311/1–755)

825.2311/12–254

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

CONFIDENTIAL

QUITANDINHA, December 2, 1954.

Subject: Discussion of Chilean Problems

Participants:
- Under Secretary Herbert Hoover, Jr.
- Chilean Finance Minister Jorge Prat
- Assistant Secretary Henry F. Holland

The Minister said that he had just talked to Santiago. It is urgent that Chile have 10,000 tons of wheat in order to cover the period elapsing until their harvest season gets under way in January and February.

Chile has just received a shipment of 11,000 tons of vegetable oil. It was paid for with a dollar promissory note falling due in 180 days. This arrangement for payment was made because of the fact that the regulations permitting payment in local currency had not yet been adopted. At the time the dollar obligation was issued it was understood that it would be converted to Chilean pesos before maturity. He hoped that this could be worked out.

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[1] This conversation took place during the course of the Rio Economic Conference at Quitandinha, Brazil. For documentation on the conference, see pp. 313 ff.

Mr. Hoover said that the United States could be helpful on the wheat problem and that he would look into the vegetable oil problem.

The Minister said that Chile would like to receive 20,000 tons of vegetable oil, 50,000 tons of wheat and 12,000 tons of cotton. He said that the latter was an exceedingly important item, because the Chilean textile mills were working at less than capacity because of the country's inability to import cotton. Cotton is one of their dollar imports. A sale of cotton under the agricultural excess program would not only help the local mills but would also lighten the burden on their dollar exchange.

The Minister said that several problems had been encountered as to the use that we would make of Chilean pesos generated through sales of agricultural excesses. The Government wants the pesos lent to it for use in constructing roads. The Ambassador is reported to want the pesos to be used for loans to private enterprise.

Mr. Hoover said that we had held preliminary conferences with other interested United States agencies and that we were prepared to negotiate with respect to the total amounts to be sold of products sought by the Minister, the rate of exchange to apply in those sales, the reconversion rate to apply to Chilean pesos, the uses to be made of Chilean pesos, and with respect to any conversations that should be held with alternative suppliers of these products.

The Minister said that as regards cotton some problem might be encountered with Peru and Egypt which were traditional suppliers.

The Minister said that in the field of financing his government was planning to attempt to achieve convertibility. He felt that if the Export-Import Bank could lend Chile $50 million and if the International Monetary Fund could establish a $25 million exchange guarantee fund, Chile could be successful in its attempt to achieve convertibility. The Minister said that he hoped the Department could help Chile in these purposes. Mr. Hoover said the Department would want to be helpful.

The Minister said that an alternative course would be for the United States to contract to buy 100,000 tons more of copper. Mr. Hoover said that he felt this would be impossible. Mr. Hoover then pointed out that Chile has a refinery that is worth $25 million. It might sell this asset if the political problems were not too great an obstacle. Mr. Hoover went on to explain that Chile has spent many millions of dollars in exploring for oil, achieving its production, constructing the refinery and other installations necessary for the oil industry. The real profit in the oil industry lies in the sale of production after you discover it. If Chile could find some politically acceptable means for selling its oil production in the southern field, it would recoup all of the investment in them and a profit as well. Thus, instead of waiting for slow recovery of its investment and profits over a period of many years, Chile would immediately have available very large sums of money for its road programs and other government projects.

The Minister said that the political obstacles to any such course would be well nigh insuperable.

Mr. Hoover pointed out that in the case of established production such as that in the southern fields this might not be true. The political obstacle to a sale of an oil concession lies in the argument that the asset sold might have been proven to be worth more than the price obtained. In the case of established production, the recoverable reserves of the structure sold can be computed with great accuracy. Thus, the sale is not of an asset whose value cannot be determined, but is of an asset whose extent and value can be determined with great precision. Chile instead of selling the contents of the field slowly and over a long period of years would be in the position of selling these same reserves in one operation and receiving the full price in one payment. Mr. Hoover pointed out that under these circumstances the price per barrel would be reduced on account of the long-term over which the purchaser would receive the benefits of his purchase.

The Minister was intensely interested, and said that when he returned to Chile he would investigate the possibility of making this kind of a sale.

Mr. Hoover said that if the Minister so wished the Department might be willing to send an expert to Chile who could look into the possibilities of effecting this type of sale.

825.10/12-2154

Memorandum by the Director of the Office of South American Affairs (Atwood) to the Deputy Assistant Secretary of State for Inter-American Affairs (Sparks)

SECRET [WASHINGTON,] December 21, 1954.

Subject: Proposed Program of Economic Assistance to Chile

The following tentative program has been prepared as an alternative to granting a balance-of-payments loan to Chile for $50 million.

1) The sale under Public Law 480 of 9,000 tons of cottonseed oil and approximately 34,000 tons of wheat having a totai market value of $5 million (ccc. value $8 million). This program has been approved and instructions have been sent to the American Embassy in Santiago to proceed with negotiations.

2) The Chilean drawing of $12.5 million from the International Monetary Fund. Chile previously requested a stand-by credit from the Monetary Fund of $25 million on the basis that this would be necessary in order for Chile to go forward with her proposed changes in exchange rates. The Monetary Fund has determined that it is not

willing to grant the stand-by credit and has sent Fund representatives to Chile to discuss certain steps which Chile must take in order to be eligible for Fund assistance. It is believed that the Fund representatives will return with the facts which would enable the Fund to grant a $12.5 million drawing if and when Chile requests it.

3) Export-Import Bank assistance: (a) A loan of approximately $10 million for the purchase of cotton; (b) A loan or export guarantees totalling approximatley $10 million to cover capital equipment (road building, power, agricultural, and railroad) which Chile has budgeted and considers essential to import during 1955.

These Export-Import Bank transactions should be dependent on Chile's providing us with a satisfactory program for handling her backlog problem and a list of essential capital equipment that must be imported during 1955 and will be of direct assistance to Chile's economic development program.

4) Increase of Chile's lines of credit with U.S. banks: Chile has $36 million of gold on deposit and could without much trouble increase her lines of credit by $18 million with a gold pledge. This could probably be done on the basis of five years the same way that Brazil handled her problem.

Recommendation: I suggest that ARA and E, after consultation with Treasury and the Export-Import Bank, prepare a telegram to our Embassy in Santiago, outlining the above program and instructing the Embassy to discuss it with top Chilean officials. I feel that the conditions which are a prerequisite to Export-Import Bank action, plus the fact that Chile itself is taking part in this program as well as the International Monetary Fund, make it unnecessary to tie up our assistance to specific performance on the part of the Chilean Government.

S/S–OCB files, lot 62 D 430, "Chile"

Paper Prepared for the Operations Coordinating Board[1]

SECRET [WASHINGTON,] December 17, 1954.

COURSES OF ACTION ON CHILE

ANALYSIS

The Working Group concluded that the present situation in Chile was serious but that the country was not likely to fall under Communist control in the near future. The political scene is marked by weakness and ineptitude in the Executive and a high degree of Congressional irresponsibility, and the two branches are currently in conflict. The Communists, strongly entrenched in Chile since the days of the Popular Front in the '30's wield great influence among the students and in the labor movement, where efforts of the free trade union movement to displace them have not to date been successful. The armed forces, however, are believed relatively free from Communist influence.

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[1] A covering memorandum, transmitting this paper to the OCB, by OCB Executive Officer Elmer B. Staats, dated Dec. 17, 1954, is not printed. The paper was prepared on a priority basis by the OCB Working Group on NSC 5432/1.

For text of NSC 5432/1, a statement of policy titled "United States Objectives and Courses of Action With Respect to Latin America," dated Sept. 3, 1954, see p. 81.

For information concerning the formation of the OCB, see the second editorial note, p. 44.

Chile's economy is in a lamentable condition. The country is currently in the grip of galloping inflation: prices rose 71.85% between September 1953 and September 1954 and the Government's budget is and for years has been hopelessly unbalanced. The exchange rate system has operated to distort trade patterns, misdirect investment, subsidize favored groups and contribute to the depression of agriculture. Efforts at applying direct economic controls have been uncoordinated, ineffective and have distorted domestic productive patterns. Agricultural production has been falling off, forcing Chile, which was at one time an agricultural exporting country, to devote roughly 25% of its foreign exchange income to food imports. Industrial productivity is low and there have been a series of labor disputes and strikes, usually motivated by the need for higher wages to keep pace with spiralling prices, which lend themselves to exploitation by the Communists for political ends.

Finance Minister Jorge Prat recently initiated a program intended to stabilize the economy over a period of two to three years. The obstacles in Prat's way are enormous: the Government's political position is weak and he has to overcome the opposition of vested interests among capital, labor and the bureaucracy who are not convinced of the necessity of making short-term sacrifices for long-term gains. Despite these obstacles and the serious shortcomings of the plan itself, the Group believes that Prat's program offers a better chance of starting Chile on the road to recovery than any other program now in sight.

BASIC APPROACH

The consensus of the Group is that only the Chileans can bring about the reforms necessary to stabilize and strengthen their economy and that U.S. aid cannot be effective unless the Chileans enact and implement the required reform measures. But it also recognizes that a certain amount of United States support may be desirable concomitantly with a reform program. It is believed that the limited progress achieved by the Chileans to date justifies an initial step to show that we are ready to help Chile as long as she is moving in the right direction. The extension of U.S. support must be timed in such a way as to bring the Chileans to the realization that the primary responsibility for the improvement of conditions in Chile rests squarely with them but that the U.S. is sympathetic with their problems and will help when our help can be useful.

No need is seen at this time for a "crash" program; on the contrary, such a program would in all probability defeat the objective of inducing the Chileans to carry forward their own reform program. The economic assistance measures which follow are therefore designed to be contingent upon Chilean progress in putting their house in order and to be put into effect step by step as they demonstrate such progress. Additional measures which are recommended and which do not depend for their implementation upon economic improvement should be carried out in accordance with the capabilities of the responsible agencies.

RECOMMENDATIONS

Economic

1. *Shipment of Agricultural Commodities*

Every effort should be made to expedite action on the Chilean request for wheat, vegetable oil and cotton under P.L. 480.

2. *Support for IMF Drawing*

In the light of appraisal by the National Advisory Council on International Monetary and Financial Problems of Chile's financial program, the NAC should consider the appropriateness of instructing the U.S. Executive Director of the IMF[2] to support:

a. IMF pressure on Chile for further economic and financial reforms, and

b. An IMF drawing by Chile.

3. *Export-Import Bank Loan*

If the Chilean economic program shows promise of success, the Export-Import Bank should consider the appropriateness of further loans to Chile within the established lending policies of the Bank to help ameliorate the existing crisis.

4. *IBRD Loan for Economic Development*

If the Chilean economic program shows promise of success the NAC should consider on its economic merit the appropriateness of the development plan based on an FAO–IBRD study or any other proposals for development loans to Chile which may be put before the Executive Directors by the Bank Management.

Diplomatic Action

5. *Diplomatic Support*

The continuing efforts of our Ambassador and his staff at Santiago to impress on appropriate officials and key individuals the necessity for taking measures to check inflation and stabilize the economy, should be given every support.

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[2] Frank A. Southard, Jr.

6. *Creation of Anti-Inflation Advisory Committees*

Recognizing that support from the widest possible segments of public opinion will be required if Prat's economic rectification program is to have any chance of success, it is recommended that the Working Group on NSC 5432/1 appraise the experience of the Austrian Government with anti-inflation advisory committees and consider the desirability of suggesting the use of similar committees in Chile. If the appraisal is favorable, Ambassador Beaulac should be provided with the necessary information so that he can decide whether it should be called to the attention of the appropriate Chilean authorities.

7. *Potential Coal Emergency*

If it is established that the Chilean coal supply situation is grave and that a strike by communist-dominated coal miners' unions is imminent and would have an immediately crippling effect on the Chilean economy, the U.S. should give consideration at once to an emergency shipment of coal to that country. There should, however, be discussions with appropriate U.S. trade unions before a decision is reached to make such shipments.

Labor

8. *Additional Labor Staff*

Labor Department and FOA believe that provisions need to be made for additional staff assistance in the labor field to handle increased programs resulting from FOA Technical Assistance and Exchange activities. The State Department agrees that additional labor staff should be made available if after the arrival of the Labor Attaché it becomes evident that it is needed.

9. *Labor Institute*

A labor institute should be established with labor sponsorship in order to provide training and information on free trade union leadership and union organization and on general labor problems for present and prospective labor leaders and others interested in labor. At first emphasis should be on short-term courses held in the major labor centers of the country. The interested agencies are collaborating in the preparation of a detailed program for this project. As soon as this program is prepared by the agencies, it should be submitted to the Ambassador for his views and suggestions.

10. *Labor Leader Exchange Program*

The labor leader exchange problem should be maintained.

Technical Cooperation

11. *Technical Cooperation Program*

The Technical Cooperation Program in Chile should be strengthened and serious consideration should be given to diversification and expansion of technical assistance activities, utilizing both U.S. technician and trainee techniques.

BEST AVAILABLE COPY

Certain recent Chilean requests merit attention. These include: (a) a request for a Hoover-type commission to study the governmental operations of Chile; (b) a request for a university contract in the field of general resources planning and management; and (c) a request for a U.S. advisor to assist the Chilean Council of University Presidents in the methodology of, and in planning activities for, increasing productivity, for improving the organization of economic activities and for promoting the rational utilization of national resources.

12. *Need for Inter-Agency Agreement*

The Working Group noted that the Department of State and FOA have not been able to agree upon the desirability of establishing positions for general labor officers and investment advisors, as well as upon other activities which do not in themselves affect the Chilean programs. Pending a decision on these matters, the FY 1955 Technical Cooperation Program in Latin America has not been implemented. It is recommended that these differences be resolved immediately.

Information and Cultural

13. *Intensification of Information Program*

There should be an intensification of the information program in Chile primarily in terms of content and following the guide lines of the short-term objectives now being established by USIA in consultation with the Embassy and the State Department. This intensification should provide maximum information support in Chile to one or two objectives supporting the U.S. on major issues and permitting a concentration of film, press, radio and Information Center activities over the next six months on groups whose opinions will be playing a key role in the present crisis.

14. *Increased Support for Binational Centers*

Binational Centers are regarded as a highly important means of reaching influential groups. Their ability to utilize Chileans to influence Chileans should be extended. The three centers now receiving regular support from USIA (Santiago, Valparaiso and Concepcion) should be provided with additional support necessary to permit the extension of their programs to larger audiences, particularly university and labor groups.

It is of special importance to support Centers in the provincial areas. Centers in Osorno, Maria Elena, and Antofagasta, which heretofore have received only sporadic or no assistance, should be provided with support adequate to reach key groups in these cities. Such support should include American personnel and funds for rent of adequate quarters if necessary. Also, it is suggested that other Centers in provincial areas be assisted similarly, if, in the opinion of the PAO, an extension of their activities would support U.S. objectives.

It is suggested that additional Smith–Mundt visiting lecturers be sent to Chile to lecture in the Binational Centers.

15. *Comment on Chile in U.S. Newspapers*

In view of the influence public opinion in the U.S. has on Chilean leaders, it is desirable to encourage the expression of such opinion supporting the U.S. position in American newspapers and magazines with subsequent publication of such articles in Chilean media.

16. *Indigenous Source for Free Labor News*

There is need for an indigenous free labor press in Chile. It could rally support for non-Communist labor groups and combat the Communist newspaper, *El Siglo's* line. . . .

. . . .

17. *Exchange Programs*

More than 200 Chileans, travelling on Communist travel-grants, attended Communist-sponsored Congresses in Iron Curtain countries during the last six months of 1953. To counteract the intensive, increasing Communist campaign against the United States, our exchange programs, particularly for observation or leader-type grants, should be substantially increased.[3]

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[3] In a memorandum to Under Secretary Hoover, dated Dec. 21, 1954, Deputy Assistant Secretary Sparks recommended that Mr. Hoover favor adoption of the proposed courses of action with respect to Chile at the OCB meeting scheduled for Dec. 22 (S/S–OCB files, lot 62 D 430, "Chile").

725.00/12–2354

Memorandum by the Operations Coordinator (Bishop) to the Deputy Assistant Secretary of State for Inter-American Affairs (Sparks)

TOP SECRET [WASHINGTON,] December 23, 1954.

For your information, there is quoted below an excerpt from my preliminary notes on yesterday's OCB meeting which is of interest to your office:

"*Courses of Action in Connection with Current Developments in Chile*

"Mr. Hoover reported that Ambassador Beaulac would be coming to Washington early in January and that he would be invited to the OCB to discuss Chilean problems with the Board. He remarked that the paper before the OCB was a valuable one but that, because of the proposed visit of Ambassador Beaulac, the State Department requested that the paper be tabled with the OCB pending Ambassador Beaulac's discussion of these problems.

"Mr. Atwood gave a brief résumé of the situation in Chile. Mr. Stassen said that, while FOA would go along with State's request that this matter be tabled for a few weeks, FOA doubted that Prat would be able to carry through on his program and that strikes and trouble are to be expected. FOA sees a deficit in the balance of payments of about

$90 million this year. If Chile were near the USSR and facing a situation as serious as this, Mr. Stassen said that the risk would be too great and would be unacceptable. However, because of the remote location of Chile, Mr. Stassen felt we probably would be able to solve this problem over a period of time with some difficulty. Mr. Hoover pointed out that many of the proposals in the staff paper before the OCB were long-range and that, therefore, it would be wise to wait until we could staff them properly within the respective departments and agencies and until we could discuss them with Ambassador Beaulac. The most important proposal, he pointed out, is that, if the President decides to take over the government without Congress, would the President be faced with a revolution and would he be able to carry on. Mr. Overby of Treasury injected that the planned program was not really the full or final answer to Chilean difficulties and that even if they do carry out this program they will be 'by no means out of the woods'. Whereas last year there had been a 75 percent increase in prices, the best that Prat hopes for this year is not more than a 30 percent increase in prices.

"Mr. Streibert, USIA, wondered if it would be possible to get full cooperation of the Government of Chile, somewhat similar to the arrangement we have with Spain, so that the United States would get full credit for whatever help we give Chile and so that we could work together with Chile in a public relations program. The difficulties in achieving such a relationship in Latin America were briefly pointed out by Mr. Hoover who added that there are plans going forward for certain discussions with CIA and that these discussions will be developed while Ambassador Beaulac is here.

"Mr. Staats raised the question of the possible coal crisis in Chile. Mr. Atwood pointed out that, after investigation, the Department of State had informed the Government of Chile that no government agency could handle shipments of coal to Chile and that they should handle their coal purchases through commercial channels. Mr. Stassen said that FOA does have a coal program and that, if it is agreed that it is a desirable thing to do, FOA could make coal shipments to Chile in a manner similar to the PL 480 shipments for surplus agricultural products. The local currency generated by the coal shipment is loaned to the local government and control kept in United States hands.

"Mr. Overby of Treasury indicated that Treasury has serious reservations and questions regarding item 6, 'Creation of Anti-Inflation Advisory Committees' but he did not wish to bring them up at this time because of the postponement of consideration of the whole paper.

"In response to Mr. Dulles' question whether the present policy is to build up the existing Chilean Government or not, Mr. Hoover replied in the affirmative and described briefly some of his discussions with Mr. Prat at Rio.

"General Cutler asked whether the program which had been described by Mr. Atwood envisaged placing requirements on Chile. It was pointed out that, to the extent that such requirements were practicable, this was true. Mr. Stassen said that he would describe FOA's program as 'walk together' instead of the 'short tether' which was the term used by Mr. Atwood. Mr. Rockefeller said that, while he agreed with the program which had been described under the term 'short tether', he felt that the description 'walk together' was psychologically a better one and that, because catch phrases had a way of leaking out of meetings, we should avoid a catch phrase which might be embarrassing. It was the general consensus that 'walk together' was a more acceptable terminology than 'short tether' although they both had almost the same meaning."

MAX W. BISHOP

COLOMBIA

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND COLOMBIA[1]

Editorial Note

Representatives of the United States and Colombia initiated negotiations for a bilateral military assistance agreement at Bogotá on January 21, 1952. Documents pertaining to the negotiations are in Department of State file 721.5 MSP for 1952. For text of the exchange of notes constituting the agreement, dated April 17, 1952, and entered into force on the same date, see Department of State Treaties and Other International Acts Series (TIAS) No. 2496, or *United States Treaties and Other International Agreements* (UST), volume 3 (part 2), page 3690.

Concurrent with the negotiations for the military assistance agreement, representatives of the United States and Colombia conducted negotiations for a related bilateral military plan, which was also signed on April 17. The "Plan of the Governments of Colombia and the United States of America for their Common Defense," undated, was transmitted to the Department of State under cover of despatch 956, dated April 21, 1952, not printed (721.5 MSP/4–2152).

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1291 ff.

Editorial Note

On March 27, 1952, the Export-Import Bank authorized a credit of $2.6 million in favor of the Empresa de Energia Eléctrica in Medellín to finance the purchase of supplies and equipment in connection with the construction of a hydroelectric power generating plant and related facilities on the Rio Grande River near Medellín. For additional information, see Export-Import Bank, *Fourteenth Semi-Annual Report to Congress* (Washington, 1952), pages 18–19.

On September 10, 1953, the International Bank for Reconstruction and Development (IBRD) authorized a loan of $14.35 million to the Colombian Government to finance the construction and rehabilitation of highways in Colombia. For additional information, see International Bank for Reconstruction and Development, *Supplement to the Eighth Annual Report* (Washington, 1954), pages 5–6.

On December 29, 1954, the IBRD authorized a loan of $5 million to the Caja de Crédito Agrario, Industrial y Minero, an autonomous official credit institution, to finance the purchase of agricultural equipment in the United States for resale to farmers in Colombia in connection with an agricultural development program. For additional information, see International Bank for Reconstruction and Development, *Tenth Annual Report* (Washington, 1955), pages 42, 44.

721.56/6–652

Memorandum of Conversation, by Maurice M. Bernbaum of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] June 6, 1952.

Subject: Visit of the Colombian Minister of War to Discuss the Purchase of Military Equipment

Participants:
Dr. Cipriano Restrepo-Jaramillo, Ambassador of Colombia
Dr. Misael Pastrana, Minister Counselor, Embassy of Colombia
Mr. Edward G. Miller, Jr., Assistant Secretary
Mr. Maurice M. Bernbaum, OSA

The Ambassador stated that he had just been advised of the probable visit to Washington some time next week of the Minister of War, Dr. José Maria Bernal, accompanied by representatives of the Colombian Army, Navy and Air Force and officers of the U.S. Armed Forces Missions. Purpose of the visit was to discuss with officers of the State and Defense Departments the urgent requirements of the Colombian Government for military equipment. Such equipment was required in order to prepare the Colombian armed forces for their responsibilities in hemispheric defense as well as the maintenance of public order. He expressed the concern of his Government over the mounting wave of disorder in Colombia, particularly in connection with growing guerrilla activities, and pointed out the likelihood that such disorder was not only playing into the hands of the Communists but was also most likely stimulated by them. He mentioned in this regard that Communism had always done best in an atmosphere of public disorder and guerrilla activities. The Ambassador then went on to say that it was hoped that the equipment required could be furnished his Government under the recent Military Agreement, but that Colombia would be prepared to purchase the equipment if that were not feasible.

In discussing the visit, the Ambassador stated that the opinion was widely held in Colombia that the United States Government had not treated Colombia as well as she deserved, particularly in view of her contribution to the United Nations campaign in Korea. He hastily added that neither he nor high Government officials held this opinion but that it was of importance to us to know that such an opinion was widely held in Colombia even if outside Government circles. He then went on to say that from his own experience he could certify that Colombia's requirements had received not only careful but even deferential consideration, the only possible exceptions involving military equipment. As an example he mentioned that Peru had received three destroyers and a number of submarines while Colombia had not received any consideration at all. Colombia had been able to purchase only a frigate.

Mr. Miller expressed his thanks for the Ambassador's appreciation of the good treatment being received by his Government from the United States, but pointed out that the Colombian Government had actually been getting equal consideration with Peru and other Latin American countries in the recent distribution of vessels to Latin American countries. He stated that invitations had been sent to all Latin American countries concurrently but that failure of the Colombian Government to respond in time had resulted in the earmarking of the available vessels to the other countries. Further sales and transfers were subsequently prohibited by a requirement that the transport or sale of any vessel ranging upward in size from destroyers would require Congressional approval in each case. As regards submarines, he stated that the Peruvian Government had been making direct contracts with the Electric Boat Company for various submarines. The United States Government was not involved in these contracts. As regards other equipment, Mr. Miller emphasized the fact that there just was not enough equipment available at this time to go around. He pointed out that even France was worried about inadequate delivery of U.S. equipment. In these circumstances the U.S. Government was just not in a position to furnish Colombia, other Latin American countries and allies outside the Western Hemisphere all of the equipment required by them. He did assure the Ambassador, however, that within limitations imposed by shortages the Colombian Government would get the most favorable consideration possible. Mr. Miller expressed his pleasure over the prospective visit of the Minister of War and stated that he would receive a most cordial welcome.

Note: The subject of Colombia's requirements for military equipment had been raised previously with Ambassador Waynick by Acting President Roberto Urdaneta. He then mentioned the equipment necessary for 13 infantry battalions, aviation spare parts and planes. The Ambassador had then assured Acting President Urdaneta that all possible consideration was being given Colombia's military requirements.

795B.5/6–652

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Miller) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] June 6, 1952.

Subject: Request for cooperation of the Department of Defense and of the Treasury in negotiations with the Colombian Ambassador for reimbursement of the logistical support furnished Colombian Armed Forces in Korea

Discussion:

The Department has been informed by the Colombian Ambassador that his Government will not be able to reimburse the United States for the logistic and other support furnished the Colombian battalion and frigate which have been serving with the United Nations Forces in Korea since June 16 and May 9, 1951, respectively. He intimated that our insistence upon reimbursement would force the withdrawal from Korea of these units for lack of resources with which to maintain them, but impliedly left the door open for negotiation as to amount.

The interested areas of the Department agree that the withdrawal of the Colombian contingent might have such a damaging effect upon the concept of collective security through the United Nations as to justify the acceptance of less than full payment. Oral assurances of our eventual willingness to accept less than full payment had, as a matter of fact, been made to the Colombian Ambassador during the latter part of 1950 by Generals Ridgway and Bolte.

Negotiation to arrive at a settlement on such terms is authorized by the directive dated September 1, 1950[2] of the Secretary of Defense to the Armed Services approved by the President, which states, in part, that "To the extent that the foreign Government cannot make prompt reimbursement in U.S. dollars, the U.S. Government and foreign Government will negotiate the terms of settlement". We believe that the directive constitutes sufficient authority for the immediate initiation of negotiations designed to insure continued Colombian cooperation in Korea on the best possible terms consistent with that country's ability to pay. The Department of Defense has agreed that less than full payment may be acceptable in cases involving our general foreign policy, but proposed in a letter dated March 4, 1952[3] that such cases be referred to the National Security Council for decision.

The Department's response of May 29, 1952,[3] to the above letter stated that the National Security Council was not regarded as the appropriate mechanism for the consideration of such financial questions and invited proposals for alternative inter-agency arrangements. However, I believe that negotiations with Colombia should not await resolution of this procedural problem, and that we should seek to obtain the concurrence and cooperation of the Departments of Defense and of the Treasury in the prompt initiation of negotiations with the Colombian Ambassador.

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[1] Drafted by Mr. Bernbaum.

[2] A copy of the referenced directive is attached to a memorandum by Assistant Secretary of State for Economic Affairs Thorp to Under Secretary Bruce, dated May 12, 1952 (795B.5/3–452).

[3] Not printed (795B.5/3–452).

Recommendation:

That you:

sign the attached letters to Secretaries Lovett and Snyder,[4] and,

discuss the matter with Secretary Lovett with a view to obtaining a prompt and favorable response.

[Annex]

Draft Letter From the Secretary of State to the Secretary of Defense (Lovett)[5]

CONFIDENTIAL

My Dear Mr. Secretary: The Department of State is in receipt of a note dated March 31, 1952,[6] from the Colombian Embassy regarding the problem of reimbursement for the logistical and other support furnished the Colombian ground and naval units in Korea. The note pointedly stresses the importance of Colombia's contribution to the United Nations Forces as an example for other countries, particularly Latin American; refers to its initial preoccupation over the cost of maintaining the two units; emphasizes the increasing concern of the Colombian Government over the unanticipated scope and duration of the operation; and concludes that except for its support in men, as well as in supplies and equipment belonging to it that the Colombian troops are using in Korea, it is able to bear the cost only of the pay and benefits of personnel assigned to that theater and not of other expenses which such collaboration involves.

In discussing the matter on May 14, 1952,[7] with Mr. Edward G. Miller, Assistant Secretary of State for Inter-American Affairs, the Colombian Ambassador reaffirmed his Government's inability to reimburse the United States for the logistical and other support furnished the Colombian units in Korea. While not stated in so many words, he conveyed the impression that United States insistence on full reimbursement would lead to the eventual withdrawal from Korea of the Colombian units for lack of resources with which to maintain them.

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[4] Draft letter to Secretary Snyder is attached to the source text, but not printed.

[5] This is an unsigned draft by Mr. Bernbaum. No copy of the original, signed by Under Secretary Bruce and sent under date of June 25, 1952 (bearing file number 795B.5/3–3152) was found in Department of State files. The original as received by the Department of Defense is in JCS files, CD 092 (Korea).

[6] Reference to Colombian Embassy note no. 380, not printed (795B.5/3–3152).

[7] A memorandum of the referenced conversation, dated May 14, by Mr. Bernbaum, is contained in Miller files, lot 53 D 26, "Colombia."

However, he impliedly left the door open for further consideration regarding the extent to which his Government might find it possible to meet the costs of the participation of the Colombian ground and naval units in Korea.

In these circumstances it is not realistic to expect that the United States will be able, either now or in the foreseeable future, to obtain full dollar reimbursement from Colombia. Moreover, if the United States allows the matter to rest, Colombia may assume that the continued, and perhaps the past, participation of the Colombian units in Korea will not involve any payment for logistical support. A prompt negotiation with Colombia to arrive at terms for past and future logistical support provided by the U.S. is, therefore, indicated. The United States should be prepared in these negotiations to consider a settlement that provides for less than full reimbursement, or reimbursement other than in dollars, or a combination of the two, but should also seek to obtain the best possible terms of settlement that are commensurate with Colombia's financial position.

While the Colombian note has, at least by implication, associated the continued participation of the Colombian units with concessions by the United States on terms of settlement that may go as far as a complete waiver, the Ambassador's remarks provide a basis for believing that some formula of settlement, short of complete waiver, will be acceptable to Colombia and consequently insure continued Colombian participation in Korea.

The Department believes that continued participation of Colombia in Korea is in the national interest of the U.S. If this proves not to be possible without a complete waiver, the matter will have to be given further consideration within the Executive Branch.

In its preparation for and conduct of the negotiations, the Department of State will, of course, welcome the cooperation and assistance of the Department of Defense. I would appreciate the designation of one or more persons to represent your Department in this regard.

Since further delay in resolving the reimbursement question with the Colombian Government would be undesirable, it is hoped to start the negotiations shortly. It would be useful for the Department of State to have data to support the United States claims for reimbursement well in advance of the initiation of the negotiations.

I am sending a similar letter to Secretary Snyder with a request for the cooperation and assistance of his Department in this matter.[8]

Sincerely yours,

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[8] In a letter dated July 18, 1952, the Secretary of Defense informed Secretary Acheson that two representatives from the Office of the Secretary of Defense (Lt. Col. Craig C. Davis and Robert E. O'Hara) had been designated to work with representatives of the Department of State to prepare for eventual negotiations with Colombia (795B.5/7-1852).

Miller files, lot 53 D 26, "Colombia"

Memorandum of Conversation, by the Deputy Director of the Office of South American Affairs (Bennett)

SECRET [WASHINGTON,] June 11, 1952.

Subject: Colombian Participation in Korean Effort

Participants: Señor Dr. Don Cipriano Restrepo-Jaramillo, Colombian Ambassador
Mr. Miller
Mr. Bennett

Mr. Miller, accompanied by Mr. Bennett, called on the Colombian Ambassador this afternoon for a further discussion of Colombian participation in the Korean effort and problems involving Colombian reimbursement for the expenses of Colombian troops in Korea. The purpose of the conversation was to explore further the Ambassador's remarks to Mr. Miller on June 6[1] regarding the possible withdrawal from Korea of the Colombian battalion.

Mr. Miller informed Ambassador Restrepo that the Department was giving further consideration to the reimbursement problem. He said that, as had been indicated in previous conversations, we were fully aware of the severe financial burden which participation in the Korean effort involves for Colombia. We realized the desirability of early agreement with Colombia on the terms of payment and the Department of State was prepared to take as liberal a position as possible on the reimbursement question, considering both Colombia's capacity for payment and the important contribution Colombia was making in Korea. While there are definite difficulties in the matter since settlements arranged with other countries, including those with countries receiving no U.S. financial aid, have for the most part called for 100 per cent reimbursement, the Department is prepared to attempt to persuade the Treasury and Defense Departments toward a realistic settlement with Colombia. Mr. Miller mentioned that there are now on his desk letters in the promises for transmittal by the Secretary of State to the Secretaries of Treasury and Defense.

Mr. Miller said, however, that the problem of payment is inseparably linked with the plans of Colombia with respect to troops in Korea. He said that, while no one questions the right of Colombia to withdraw her troops if she considers it necessary and it would be her decision alone, such action would have most serious effects. Quite aside from the loss of Colombia's valuable military contribution, it would be the first "break in the line" and as such would have very serious consequences on the entire UN effort. The Assistant Secretary considered it necessary therefore, before taking up the problem with other government departments, to inquire further regarding Colombia's intention. If Colombia were planning an imminent withdrawal, then the Department of State would be in a very poor position in urging on other government departments a generous reimbursement formula.

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[1] Regarding the discussion at this meeting, see Mr. Miller's memorandum, *supra*.

Ambassador Restrepo replied to this remark by recounting the conversation which he had had with Acting President Urdaneta since his discussion on the matter with Mr. Miller the other day. He said that he had informed the President of Mr. Miller's comments on the possible Colombian withdrawal and had transmitted this Government's views as to the seriousness of such a step. He said that he had now been authorized by President Urdaneta to assure the U.S. government that Colombia has no intention of withdrawing her troops from Korea. He said that the President had asked him to state that, notwithstanding the financial burden involved and the great need for the troops, especially the officers, at home in view of current disturbed conditions there, Colombia was determined to fulfill faithfully its undertaking in Korea. He said that the Colombian government would continue in Korea by the side of the U.S. as an act of friendship and an act of faith. The Ambassador was firm and categoric in these statements. In that connection, Ambassador Restrepo expressed very pessimistic views about the situation in Korea and said that he could see no end to the problem.

During the conversation the Ambassador mentioned the scheduled arrival tomorrow of the Minister of War of Colombia for an unofficial visit of two or three weeks connected with the procurement of arms and equipment. He emphasized that Colombia's most pressing problem today is that of internal order and that the armed forces must be strengthened. He said that the plans to be presented by the Minister of War had been drawn by the Colombian armed forces with the advice and collaboration of the U.S. Military Mission. He expressed the hope that the Minister would be able to proceed with the plans while here. The Ambassador reverted to the assertions made by him in the June 6 conversation concerning opinion in Colombia that the U.S. Government had not treated Colombia as well as she deserved. As in the earlier conversation he disassociated the Colombian government from this alleged opinion.

721.5 MSP/6–1952

Memorandum of Conversation, by Maurice M. Bernbaum of the Office of South American Affairs

SECRET [WASHINGTON,] June 19, 1952.

Subject: Outstanding Military Problems with Colombia

Participants: Sr. don Cipriano Restrepo-Jaramillo, Colombian Ambassador
Sr. don José María Bernal, Colombian Minister of War
UNA—Mr. John Hickerson, Assistant Secretary for UNA
ARA—Mr. Edward G. Miller, Jr., Assistant Secretary for ARA
OSA—Mr. W. Tapley Bennett, Deputy Director, OSA
OSA—Mr. Maurice M. Bernbaum, Officer in Charge, NWC

The above officers of the Department were invited for luncheon at the Colombian Embassy to discuss, among other things, the acquisition of military equipment by the Colombian Armed Forces, the manner in which the recently signed Bilateral Military Pact is to be implemented, and reimbursement for the logistical support furnished Colombian Amed Forces in the Korean theater.

The Ambassador stated that conversations already held by Minister of War Bernal at the Pentagon had been most satisfactory. As a result of these conversations and with the assistance of appropriate officers of the Pentagon, the Colombian Embassy had prepared a request list of military equipment valued at approximately $3 million which was to be presented to the Department the same afternoon. This list represented a boiled down version of a previous list from which, as a result of the conversations at the Pentagon, non-available items had been deleted.[1]

The Ambassador stated that the Pentagon was extremely anxious to have the Department's approval on the Colombian purchase order by Tuesday in order that the matter be taken up by the Allocations Board meeting the following day. He conveyed the impression that assurances had already been given by the Pentagon that the matériel requested would be furnished subject to approval by the State Department. The Ambassador was most emphatic regarding such assurances and requested the Department's cooperation in getting the list to the Pentagon before the deadline.

The Ambassador then inquired regarding the military equipment to be made available to Colombia under the recently signed Bilateral Military Pact. He wanted to know the kind of equipment which was to be furnished in general as well as the exact composition of the initial shipment to be made in the near future. Mr. Miller stated that available information would be furnished him as soon as possible.

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[1] At this point on the source text there appears the following handwritten notation initialed by Mr. Bennett: "Pentagon informed Mackay availability not involved in the list—it was merely a 'suitable' list in line with Colombia's needs."

The Ambassador then stated that he and the Minister of War had taken advantage of their recent visits to the Pentagon to discuss the question of logistical support for the Colombian Armed Forces units now serving in Korea. He expressed himself as completely satisfied with the understanding attitude displayed by the unnamed high-ranking officers in the Pentagon who stated that they would give the most sympathetic consideration to Colombia's problem.

Both the Colombian Ambassador and Dr. Bernal repeatedly emphasized throughout the luncheon the urgent character of Colombia's requirements for the requested military equipment. Dr. Bernal stated that the question of internal security was of paramount importance to the Colombian Government which transcended in significance its operations in Korea and its preparations to collaborate in hemispheric defense. He described the anarchy now prevalent in many sections of Colombia as a result of guerrilla activities and stated that until this problem was solved the Colombian Government could give no assurances that it would be in a position to collaborate in hemispheric defense. He repeatedly emphasized, as did the Ambassador, that the guerrillas had no real political significance and were, as a matter of fact, being stirred up in their own activities by the small but forceful Communist minority which was interested only in the fomentation of disorder. The situation was such that anybody venturing into the territory now covered by the guerrillas would do so at the risk of his life. All efforts made by the Government to solve this situation through conciliation had thus far been unavailing. As a result, only military force could be counted upon to do the job. It was for this reason that Dr. Bernal was now visiting the US in the hope that he would, by his presence and through the first-hand knowledge imparted, be successful in expediting the purchase and sale of the necessary military equipment.

Dr. Bernal stated in response to queries from Messrs. Miller and Bernbaum that the guerrillas were not well equipped. Available evidence indicated that they were in possession of only rifles, most of them of a poor quality, hunting pieces and machetes. Only in the Eastern part of the country close to the Venezuelan border had there been found any machine guns. Guerrillas were apparently being supplied from Venezuela and Panama. They apparently enjoyed the cooperation in Venezuela of left-wing sympathizers among whom he named Jóvito Villalba, leader of the URD. He remarked that the Venezuelan Government had only recently suggested that it would take measures necessary to stop the traffic of arms from Venezuela into Colombia in return for Colombian cooperation in preventing similar traffic from the Colombian Guajira Peninsula into Venezuela.

821.413/6–1952

Memorandum of Conversation, by Maurice M. Bernbaum of the Office of South American Affairs

SECRET [WASHINGTON,] June 19, 1952.

Subject: Protestant Difficulties in Colombia

Participants: Sr. don Cipriano Restrepo-Jaramillo, Colombian Ambassador
Sr. don José María Bernal, Colombian Minister of War
UNA—Mr. John Hickerson, Assistant Secretary
ARA—Mr. Edward G. Miller, Jr., Assistant Secretary
OSA—Mr. W. Tapley Bennett, Deputy Director
OSA—Mr. Maurice M. Bernbaum, Officer in Charge, NWC

The difficulties being experienced by Protestant Missionaries in Colombia were discussed at a luncheon held today at the Colombian Embassy.

The subject was raised by Dr. Bernal in connection with his description of current guerrilla activities (see memorandum of conversation of same date[1]). He stated that the difficulties now being experienced by the Protestants were to a very considerable extent related to civil unrest. As in the case of the guerrillas who were being incited by the Communists for the purpose of fomenting disorder, the Communists were taking advantage of antagonism between the Catholics and Protestants for the same purpose. Dr. Bernal went so far as to state that most of the atrocities being committed against the Protestants were Communist-inspired. He immediately back tracked, however, when queried as to whether the Priests who had reportedly led the mob action against the Baptist Church in Bogota of last December were Communists. He admitted that these as well as many other Priests in Colombia were fanatically opposed to the Protestants and often went out of their way to oppose them. He emphasized, however, that such activities were in no way a reflection of either church or government policy. When asked regarding the prospects of a solution to the Protestant problem, Dr. Bernal responded that the prospects were indeed good. He felt, however, that since the difficulties being experienced by them were so closely related to civil strife the solution to their difficulties would be dependent upon the ability of the Government to suppress guerrilla activities. When this objective was achieved, he stated that the Protestants would have nothing to fear.

The foregoing was to a large extent contradicted, however, by the Ambassador, who entered the conversation with the statement that the

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[1] *Supra.*

Protestant Missionaries could not legitimately expect to operate unmolested in a predominately Catholic country. He stated that regardless of the attitude of the Government, it would be impossible for anybody to insure immunity for Protestant Missionary activities in out-of-the-way parts of the country. He then drew a parallel with the southern part of the United States, particularly the bombings of Catholic Churches which had taken place during the last year in the state of Florida. He then inquired regarding the treatment to be expected by Catholic Missionaries in small, predominately Protestant communities.

Mr. Miller remarked at this point that the treatment accorded Catholic Missionaries in the U.S. could hardly be compared with that being experienced by Protestant Missionaries in Colombia. He remarked that of all Churches, the Catholic was one which had the greatest stake in the concept of the freedom of religion in view of its extensive missionary interests all over the world. He pointed out that Catholic Missionary activities were most intensive in the Far East and Near East amongst the predominately Moslem and Hindu populations. He then went on to say that the Department held no brief for any particular missionary activity and had, as a matter of fact, been instrumental in securing the admission into Guatemala of a representative of the Catholic Maryknoll Order.

Mr. Miller went on to say that the Protestant Missionary problem in Colombia was a matter of increasing concern to the Department, which had been experiencing considerable pressure from Members of Congress as well as private individuals from all parts of the country. While realizing the problems being faced by the Colombian Government, he expressed the hope that something could be done to eliminate this most unfortunate irritant in the relations between the two countries.

Obviously uncomfortable, the Colombian Ambassador reaffirmed the impracticability of expecting the Protestants to be immune from opposition, particularly in a Catholic country undergoing civil strife. He added, in response to Mr. Miller's statement regarding Catholic Missionary activities, that he did not believe there were any Colombian Catholic Missionaries in the United States requiring protection. He then laughingly remarked that he was probably in receipt of as many letters of complaint as was the Department. He attributed this to the recent propaganda campaign of the *Presbyterian Life* which was making a special point of stimulating protests.

Although the conversation terminated amicably, it had been made clear to the Colombian Ambassador and to the Minister of War that the Protestant Missionary problem was a most important factor in Departmental thinking regarding US relations with Colombia.

Mann–Woodward files, lot 57 D 598, "Colombia"

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Assistant Secretary of State for Inter-American Affairs (Miller)[1]

SECRET [WASHINGTON,] June 23, 1952.

The Colombian Minister of War is in Washington and has indicated that he does not intend to leave until he gets a definitive answer to his request for equipment needed to round out the equipment needed by thirteen infantry battalions. Attached is a note dated June 19, 1952[2] from the Colombian Embassy which lists the equipment desired. Also attached is Ambassador Waynick's despatch of June 13[3] recommending that "friendly and helpful consideration be given to the current request for small arms and other equipment for the infantry battalions." The Colombian Minister of War and his staff have already had some informal conversations with our Department of Defense, and it is our understanding that the list which we have received from the Colombian Embassy was approved by our people as suitable equipment for them to obtain although we are informed that no commitment was made by the Pentagon on availability.

OSA and I would like to turn the Colombians down on their request for all of this equipment, since it is pretty obvious that the Colombian Government wants this to "maintain internal order" with all that this implies in the present state of Colombian affairs. Unfortunately, however, if we were to do this we would risk antagonizing the Colombian Government to the point where they might resurrect their proposal to withdraw their battalion in Korea on the ground that the battalion and its equipment are needed at home in view of their inability to obtain equipment from the United States. We would like at least to minimize this risk to the extent that it is possible for us to do so.

Probably the best solution would be to offer the Colombians as attractive a package as possible on their overall military requirements while attempting to reduce as far as possible equipment of anti-personnel character which is likely to be used primarily against the Colombian opposition. The package which we have tentatively in mind is the following:

(1) The best official assurances we can give the Colombians on the question of reimbursement. This question has been hanging fire as it were for many months and it would be helpful from a number of standpoints to get it resolved favorably during the visit of the Minister of War.

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[1] Drafted by Deputy Assistant Secretary Mann.

[2] No attachments were found with the source text; the referenced Colombian Embassy note no. 699 is not printed (722.5 MSP/6–1952).

[3] Reference is to despatch 1110, from Bogotá, not printed (721.5 MSP/6–1352).

(2) Informal but firm assurances that Colombia's allocation under the FY 1953 MSA will be substantially increased. In this connection, I think that Colombia's participation in Korea entitles them to a larger share, and the equipment which they would receive under the grant program would be committed to a definite task in hemisphere defense. Presumably a substantial part of this would not be equipment designed for maintenance of internal order.

(3) Approval on this request of some useful equipment which they desire but scaling down all equipment which is primarily anti-personnel in nature to a minimum, say enough for approximately one battalion. In that connection, we might find a way to imply to the Colombians that, while we are prepared to assist Colombia strengthen itself on the defense of the hemisphere, it is not the policy of our Government to furnish armaments to be used against an opposing Colombian political party.

(4) Approval of the transfer to Colombia of certain training aircraft and naval equipment which they have requested but which have not for various reasons been immediately available.

Before proceeding with any recommendation to Defense on the details of this package, I believe that you should discuss the problem with General Bolte informally to get his agreement to this line of approach.

721.5 MSP/6–2552

Memorandum of Conversation, by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)

SECRET [WASHINGTON,] June 25, 1952.

Participants: [Lt.] General Charles L. Bolte, [Maj.] General R. L. Walsh,
[Brig.] General George C. Stewart;
Mr. Edward G. Miller, Jr.,
Mr. Thomas C. Mann

The problems arising out of the request of the Colombian Government for equipment for thirteen Colombian battalions were discussed.

Mr. Miller and Mr. Mann discussed the general political situation in Colombia. They said that according to Colombian representatives, the arms were to be used for the purpose of maintaining internal order and explained the problems which this presented, both for the Department of Defense and the Department of State. They also explained that the arms going to Colombia under the hemisphere defense program were in an entirely different category, both because of the purpose for which the arms were being supplied and because the anti-aircraft equipment given to Colombia was not so easily adaptable to use against Colombians.

It was the consensus of the meeting that the best procedure would be for the Defense Department to accept whatever funds the Colombians wished to deposit for the equipment described in the lists furnished to us by the Colombians and to delay delivery of those items of an anti-personnel character until the situation should become better clarified in Colombia. At the same time equipment such as trucks, radios, and things of a similar character would be made available without delay additional to that imposed by circumstances. Representatives of the State Department and the Pentagon would consult with each other concerning the different categories of equipment and the timing of their delivery.

It was also the consensus of the meeting that it is important for the Defense and State Departments to present a united front on this issue to the Colombians and to explain to them delays by referring to problems of priorities and other technical considerations rather than our fears that the equipment would be mis-used.

Mr. Miller handed to General Bolte a copy of the State Department's letter[1] to the Defense Department concerning the problem of reimbursement for equipment furnished the Colombian battalion in Korea. General Bolte expressed informally his sympathy with the approach suggested in that lettter.

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[1] Apparent reference to the letter dated June 25, 1952; for a draft, see p. 770.

611.2194/7–1052

The Chairman of the Civil Aeronautics Board (Nyrop) to the Acting Director of the Office of Transport and Communication Policy (Klemmer)

WASHINGTON, July 10, 1952.

DEAR MR. KLEMMER: During a conversation on June 6, 1952[1] with members of the staff of the Department of State, the Colombian Ambassador proposed that in view of the inability of the United States and Colombia to reach an accord on a new bilateral air transport agreement, an informal arrangement be effected for a period of about one year to test Avianca's ability to compete successfully with U.S.-carrier competition. Upon inquiry, the Ambassador stated that his Government would reserve the right to restrict the frequencies operated by U.S. carriers.

It is not clear whether the Ambassador contemplated an exchange of notes or a verbal arrangement, but in either case the proposal is wholly unacceptable to the Board. To agree to a restriction on frequencies, even for a so-called test period, or to permit a U.S. carrier to accept an operating permit containing such restrictions would be tantamount to conceding the validity of Colombia's arguments in behalf of predetermination of capacity, and would be so construed by the Colombians. Our position in any future agreement negotiations would be extremely difficult to maintain.

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[1] A memorandum of the referenced conversation, drafted by Mr. Bernbaum, dated June 6, 1952, is in file 611.2194/6–652.

Another objection to the Colombian proposal is that it is quite unlikely that Colombia would be willing to authorize Braniff to serve Bogota, even on a temporary basis, without expecting some "reciprocal" benefit for Avianca. Since the Braniff route would be a new and additional route from the United States to Colombia, it is possible (and even probable) that Colombia would ask for an additional route for Avianca under the Kellogg–Olaya Pact.[2]

The United States has made extraordinary efforts during the past five years to meet the Colombian viewpoint on various proposals for a new bilateral air transport agreement to replace the out-moded Kellogg–Olaya Pact of 1929. Despite the fact that the concessions offered exceed those offered any other foreign government to date, we have been unable to satisfy Colombia's desire for protection of its national carrier. The present proposal for an informal arrangement clearly reveals that the Colombian position has not changed, and it appears extremely unlikely that we will be able to conclude a satisfactory air agreement with the Colombians so long as they can rely on the broad grant of rights established in the Kellogg–Olaya Pact. The Board, therefore, recommends that appropriate steps be taken to denounce the Kellogg–Olaya Pact.

It is hoped that this drastic measure will impress upon the Colombians the seriousness with which we view their intransigence and that, within the ninety-day period between notice of denunciation and termination of the agreement, Colombia will offer acceptable proposals for a new air transport agreement.

Sincerely yours,

DONALD W. NYROP

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[2] Reference is to the exchange of notes signed at Washington by Secretary of State Frank B. Kellogg and Colombian Minister to the United States Enrique Olaya, Feb. 23, 1929, and entered into force on the same date, concerning aircraft facilities for commercial aviation; for text, see *Foreign Relations*, 1929, vol. II, pp. 882–884.

611.2194/8–2852

Memorandum of Conversation, by Albert H. Gerberich of the Office of South American Affairs[1]

CONFIDENTIAL [WASHINGTON,] August 28, 1952.

Subject: Negotiations for a Bilateral Aviation Agreement with Colombia

Participants: Sr. Don Cipriano Restrepo-Jaramillo—Colombian Ambassador
Sr. Don Misael Pastrana—Minister-Counselor, Colombian Embassy
The Honorable Josh Lee—Member of the CAB
Mr. Hill—AV
Miss Hillyer—AV
Mr. Bennett—OSA
Mr. Bernbaum—OSA
Mr. Nolan—AR
Mr. Gerberich—OSA

The meeting was held for the purpose of presenting to the Colombian Ambassador a memorandum[2] prepared by the CAB in accordance with the request of the Colombian Foreign Minister to describe the procedures followed by the CAB in making subsidy payments to US airlines. The request was made by the Foreign Minister during a visit to his office on July 16, 1952 by Mr. Birgfeld, Counselor of Embassy at Bogotá, and Mr. Bernbaum of ARA (Embassy, Bogotá tel. No. 44, July 16, 1952[3]). It was motivated by the realization of the Foreign Minister that the Department and CAB would not agree to an agreement based on frequency or capacity restrictions; the probable fear that failure to reach an agreement would result in US denunciation of the Kellogg–Olaya Pact under which Avianca enjoys favorable operating privileges in the US; and the corresponding desire to have at hand sufficient evidence regarding the painless character of free competition to mollify the Colombian Congress in the event that a non-restrictive agreement were presented to it for approval.

The memorandum also included a summary of the various arguments previously adduced by the CAB to demonstrate that the Colombian Aviation line, Avianca, need not fear the results of free competition with American airlines.

Although previously informed by both the Foreign Minister and a Departmental officer of the purpose of the memorandum, the Ambassador's reaction to it was characteristically critical as representing only a rehash of information already reported to his Government. Making a very good presentation of the Colombian case, he urged that the CAB reconsider his proposal for the informal application of the terms of the agreement for a trial period of one year. He was not, however, willing to consider Mr. Hill's suggestion that the trial period be based on complete freedom for Braniff (the only US airline thus far certificated to serve Bogotá) to operate without any frequency or capacity restrictions.

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[1] Codrafted by Mr. Bernbaum and Mr. Gerberich.
[2] No copy of the referenced memorandum was found in Department of State files.
[3] Not printed (611.2194/7–1652).

The ensuing discussion again demonstrated the determination of the US to insist upon full facilities for free competition and that of the Colombian Government to press for restrictions on frequency and capacity. In summing up the problem, the Colombian Ambassador emphasized the probability of rejection by the Colombian Congress of any agreement considered to jeopardize the welfare of Avianca. While expressing his readiness to recommend acceptance of the United States position as involving over-all advantages to Colombia, he pleaded for sufficient concessions by the CAB to insure acceptance by the Colombian Congress. He then requested to be informed of the final United States position sometime before his departure for Bogotá at the end of September.

Senator Lee expressed his appreciation of the Ambassador's viewpoint and stated that, although he would be glad to bring the matter again to the attention of the CAB, he did not personally see any reason for believing that the previously unalterable decision of the five CAB board members not to permit frequency and capacity restrictions would be changed.[4]

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[4] On Sept. 12, 1952, Ambassador Restrepo-Jaramillo was informed at the Department of State that the CAB refused to consider any arrangement involving restrictions on frequency and capacity (memorandum of conversation, by Mr. Bernbaum, Sept. 12, 1952, 611.2194/9-1252).

795B.5/9-1552

Position Paper Prepared in the Department of State[1]

CONFIDENTIAL [WASHINGTON,] September 15, 1952.

STATE-DEFENSE-TREASURY POSITION PAPER ON COLOMBIAN REIMBURSEMENT FOR LOGISTICAL SUPPORT

Problem:

What should be the position of the U.S. negotiators in the forthcoming negotiations[2] with Colombia for reimbursement for the logistical support furnished Colombian forces in Korea?

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[1] Drafted by Mr. Bernbaum, and Murray Ryss and Mortimer D. Goldstein of the Monetary Affairs Staff. A covering transmittal memorandum to the Treasury and Defense Departments, dated Sept. 15, 1952, is not printed.

Background:

In negotiating with governments whose forces have been furnished logistical support, the United States has followed the uniform practice of requesting full reimbursement in U.S. dollars on a current basis. These terms are embodied in the standard draft agreement which is presented when negotiations are initiated. Such agreements have already been signed by four countries—the Netherlands, the Union of South Africa, Norway, and Sweden. In addition, informal arrangements have been made with Canada on the same basis. Negotiations are pending with twelve other countries.

Colombian forces, consisting of a frigate and an infantry battalion, have been participating in the UN action in Korea since May and June 1951, respectively. It is estimated that the U.S. Government has furnished logistical support amounting to roughly $8 million through July 1952. The Government of Colombia, in its note of November 14, 1950,[3] "recognizes that there will be an obligation to reimburse the United States Government for the training, logistical support . . . the details to be arranged later between the Government of Colombia and the Government of the U.S." Subsequently, in a note dated March 31, 1952,[4] the Colombian Ambassador stated, "after very careful examination of the problem and the actual potentialities of the country from an economic and fiscal point of view, my Government considers that . . . it is able to bear the cost only of the pay and benefits of personnel assigned to that theater, and not the other expenses which such collaboration involves".

In reply to the Colombian Ambassador, the U.S. assured him that we "fully appreciated the difficulties being faced by Colombia in the maintenance of units now serving in Korea" and that we were ready to give "most sympathetic consideration to Colombian problems arising from the undertakings of the Colombian Government with respect to the reimbursement of the United States . . . ." In a subsequent conversation, the Ambassador implied that his Government would be forced to withdraw its forces in Korea in the absence of assistance from the United States. He then referred to verbal assurances given his Government before its ground and naval units were sent to Korea that payment might be deferred to the future on the basis of a settlement understood to involve only a nominal sum. Assistant Secretary of State Edward G. Miller recalls having been present at a meeting in which such assurances were give the former Colombian Ambassador by Generals Ridgway and Bolte.

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[2] On Aug. 19, 1952, at a meeting which took place at the Department of State, representatives of the Departments of State, Defense, and Treasury tentatively agreed that formal negotiations looking toward a settlement of the reimbursement question should be initiated with the Colombian Government (memorandum for the files, by Mr. Mackay, dated Aug. 19, 1952, 721.5 MSP/8–1952).

[3] Reference is to Colombian Embassy note no. 2539, not printed (795B.5/11–450).

[4] Reference is to Colombian Embassy note no. 380, not printed (795B.5/3–152).

The Ambassador inquired in a later conversation with Assistant Secretary Miller regarding our reaction to the temporary withdrawal of the battalion now serving in Korea to assist in restoration of internal order in Colombia. Following the informal but nevertheless definite adverse reaction of Mr. Miller, he later stated that his Government had given up any idea of withdrawing the battalion and that it would be kept in Korea as an act of friendship and faith. This assurance was at least impliedly qualified on that occasion, as previously, by emphasis on Colombia's limited resources as a factor in its ability to carry on in Korea without relief from the obligation of reimbursing the United States for logistical support.

Discussion:

The conflicting character of the Colombian Ambassador's statements leaves open to question the willingness of the Colombian Government to carry on in Korea for any prolonged period of time without a United States commitment to waive all, or at least a substantial part, of the cost of the logistical support furnished.

That Government's ability to pay, as distinct from its readiness to do so,.is indicated by a sound budget and favorable balance of payments position. Budget surpluses were achieved in 1950 and 1951 and there are strong indications that the record budget of 1952 will be in approximate balance. Colombia's gold and foreign exchange position has improved remarkably in 1951 with holdings increasing by almost $25 million, and it is expected that there will be an increase in reserves of the same magnitude in 1952.

Assuming, therefore, that Colombia's stake in the Korean operation is so great as to justify the budgetary outlays, there would appear to be no economic justification for negotiating an agreement providing for less than full reimbursement. In actual fact, however, first priority is being given an extensive program of economic development which was drawn up in consultation with the IBRD. Parts of the program, including the rehabilitation and improvement of road, rail and air transportation has already been started. It involves extensive loans from abroad as well large internal expenditures. To the Colombian Government, this program and the military repression of the growing guerrilla movement in Colombia are probably of considerably greater importance to the national welfare than is the United Nations operation in far-off Korea. The Colombian Government probably feels, that, in any case, the United Nations operation will be carried on regardless of the presence of Colombian troops. Given these circumstances and regardless of the good will involved, it is not improbable that Colombia would withdraw from Korea in the absence of relief from the United States. It is generally agreed that such a development would not be in the national interest of the United States, as indicated by the Department of State in its letter of June 25, 1952, to the Departments of Defense and of the Treasury.[5]

Some additional factors must be taken into consideration in meeting this problem.

(1) The Colombians are already on record in their note of March 31, 1952 as being unwilling to pay for logistical support. Continued delay in meeting the issue might, therefore, create the undesirable impression that the U.S. has, in effect, acceded to its request. The Colombian Government might not, accordingly, feel either morally or actually obligated to the United States for the support furnished since, if not before, March 31, 1952.

(2) It will be difficult to deal with a Colombian reference to assurances by high ranking United States Government officials that the eventual bill for reimbursement will be settled at a nominal rate.

(3) Any final settlement at the present time involving less than full payment might reduce our bargaining power in negotiations with the remaining twelve and conceivably could jeopardize the full-reimbursement agreements already reached with five countries.

(4) Almost four months have elapsed since the time (May 14) when discussions with the Colombian Ambassador were adjourned pending the establishment of a unified U.S. governmental position. It would be embarrassing and probably detrimental to U.S. financial interests to resume negotiations and then be forced to postpone them for another prolonged period of time in the event of the Colombian Government's refusal to consider payment on the same terms as have been agreed to by other countries.

In view of Colombia's stated position and our desire that Colombian forces remain in the Korean operation, the U.S. should be prepared to indicate to Colombia that the U.S. would be receptive to funding the Colombian obligation over a suitable period of time, or to any alternative solution offered by the Colombians that embodies the principle of full reimbursement. While, as indicated above, a final settlement for less than full reimbursement would have adverse repercussions on negotiations with other countries and while it would not be otherwise tactically desirable for the U.S. to propose such a settlement, the U.S. should consider any such proposals by the Colombian Government to determine whether acceptance at this time would, on balance, be in the best interests of the U.S. The U.S. may also consider, if no acceptable definitive settlement appears possible through current negotiations, the desirability of suggesting an interim settlement under which Colombia would make periodic payments of some moderate amount, the balance to be negotiated at a specified time in the future.

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[5] For a draft of this letter, see p. 770.

Conclusions:

1. Formal negotiations with Colombia should be initiated in the near future to obtain reimbursement for U.S. logistical support.

2. The U.S. negotiators should inform the Colombians that the U.S. has given careful consideration to Colombia's situation in connection with its obligations to reimburse the U.S. In view of Colombia's generally satisfactory financial situation, internal and external, the U.S. does not find justification for departing from the principle established in agreements with other countries which provide for reimbursement in full.

3. The U.S. negotiators may also inform the Colombians that, although other countries have agreed to pay on a current basis, the U.S. would not be adverse to a definitive settlement that would provide for payments by Colombia over a reasonable period of years (to be determined by the negotiators).

4. The three Departments recognize the paramount importance of the retention of the Colombian forces in Korea. In the event the negotiators have good reason to believe during the course of the negotiations that the Colombian forces will be withdrawn from Korea if the U.S. does not agree to grant particular financial concessions or assurances, the Departments will reconsider the situation on an emergency basis. Subject to these principles, the following will apply:

(a) If it becomes clear that the Colombian Government will not presently agree to full reimbursement on either a current or funded basis, the Departments will consider (i) concessions (scaling down) that the U.S. may agree to in a definitive settlement, or (ii) the terms that may be offered in an interim settlement.

(b) If inter-Departmental concurrence is reached as to specific concessions or interim terms that should be agreed to by the U.S., the Departments, without clearance of higher authority, will instruct the negotiators to proceed on the basis thereof. It is understood, however, that approval for a complete waiver cannot be given without the consent of the President.

(c) If the Departments can find no satisfactory basis for a definitive or interim settlement that is also acceptable to Colombia, the negotiators will be instructed to seek agreement to adjourn the discussions, preferably to a specified future date.

721.00/9–1152

Memorandum by the Director of the Office of South American Affairs (Atwood) to the Assistant Secretary of State for Inter-American Affairs (Miller)[1]

SECRET [WASHINGTON,] September 19, 1952.

Subject: Arms Shipments to the Colombian Government.

In view of your concurrence in Ambassador Waynick's recommendation regarding the prompt shipment to Colombia of the arms requested by Colombian Minister of War Bernal (see attached Embdes No. 225 of September 11[2]), we plan to take the following action on this and three other pending Colombian requests for military and naval equipment each of which is in a different stage of consideration in State and Defense.

(1) Inform Defense that our informal agreement of June 25, 1952[3] with Generals Bolte, Walsh and Stewart can now be relaxed, and the anti-personnel material requested by General Bernal can be released in limited amounts to the extent that it is available.

(2) Authorize MD to release the export license for the shipment of a long-delayed consignment of light and heavy machine guns (50 each); pistols and sub-machine guns (76 each); and nominal amounts of ammunition and grenades. This order, placed by Ambassador Zuleta Angel on August 23, 1950, is valued at $136,235.

(3) Approve to Defense from a political and economic viewpoint the Colombian request made August 14, 1952 for an additional frigate, subject to current availability, and Defense's finding that this type of vessel is needed by Colombia in connection with hemisphere defense.

(4) Inform Defense that we cannot approve the Colombian request of August 4, 1952 for demolition, fragmentation and napalm bombs, which the Colombians state "are needed by the Colombian Air Force in connection with the Joint Western Hemisphere Defense Effort," unless Defense can adduce some overriding military reason why these are needed by Colombia at this time.

If you agree with the foregoing, and will so indicate,[4] we shall proceed along these lines.

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[1] Addressed also to Deputy Assistant Secretary Mann; drafted by Mr. Gerberich and Mr. Mackay.

[2] Not printed (721.00/9–1152).

[3] For the substance of the agreement, see the memorandum of conversation, June 25, 1952, p. 779.

[4] There is no indication on the source text of Assistant Secretary Miller's approval.

795B.5/11-2652

Memorandum of Conversation, by Albert H. Gerberich of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] November 26, 1952.

Subject: Replacement of Colombian Battalion in Korea

Participants: Ambassador Cipriano Restrepo-Jaramillo
Minister-Counselor Misael Pastrana
Assistant Secretary Edward G. Miller—ARA
Mr. Wainhouse—UNP
Mr. Gerberich—OSA

The Ambassador said he had received instructions from his Government to ascertain whether it would be possible to withdraw the Colombian battalion of infantry which has been fighting in Korea beside the United Nations forces and substitute for it a battalion of artillery. He said that Colombia would like to have an opportunity to train artillerymen as well as footsoldiers at the front. He also mentioned that rumors had reached him from various sources that the Colombian battalion was to be withdrawn entirely. He said such rumors are entirely without foundation, and he had been instructed by his Government to say that no one is authorized to make any statements regarding the battalion except the Foreign Minister in Bogotá or the Colombian Ambassador in Washington.

Mr. Miller said he wanted to state at the outset that we are all proud of the brilliant account the Colombian Battalion has given of itself in Korea. We are also proud of the brilliant intervention of the Colombian Ambassador at the United Nations in the discussions regarding Korea, and he wanted to thank the Ambassador personally and in the name of the United States Government. Regarding the change from an infantry to an artillery would have to be taken up with the appropriate Defense authorities. However, he thought that it would be unwise to make the change in the immediate future, as it could easily be misinterpreted and distorted during the present debate on Korea at the United Nations.

He asked the Ambassador if the present request was tied up with the question of reimbursement for logistic support, which the Ambassador has discussed frequently with the Department of late. The Ambassador said that whether Colombia maintained an infantry or an artillery battalion at the front would have no effect on Colombian Korean policy. Mr. Miller said we have been hoping all along to be ready to begin negotiations with the Ambassador on the subject of reimbursement, but in spite of our best efforts the preliminary interdepartmental discussions have not yet been completed. He could only say that he hoped to be able to tell him very shortly that we are prepared to meet with him. The Ambassador thanked Mr. Miller and said he would be glad at any time to sit down with us.

Mr. Miller asked Mr. Wainhouse if he had anything to add to what had been said. Mr. Wainhouse said he thought the effect of a change in the Colombian contribution to the UN effort in Korea might have a bad psychological effect on the other nations who are also contributing. He said he also hoped that the Ambassador would not bring this matter directly to the attention of the United Nations, as he understood he had planned to do; he said the United Nations is merely a "post office" in this matter, and all discussions should be with the Unified Command. The Ambassador said he did not believe the change from infantry to artillery would have a bad psychological effect; the Colombians would not pull out their troops, and all the allied units would see that they were still out there fighting beside them. He added he had no intention of taking the matter to the United Nations; that immediately upon receipt of his instructions he had gotten in touch with Mr. Bernbaum at the United Nations only for advice as to how to proceed.

Mr. Miller at this point alluded to the fact that casualties amongst foot soldiers are some 40 percent higher than in the other line components.

He handed Mr. Miller a formal note[1] requesting authorization to withdraw the infantry battalion and substitute for it a battalion of artillery, and said he would appreciate it if Mr. Wainhouse made the necessary arrangements for bringing the subject to the attention of the military technicians.[2]

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[1] Reference is to Colombian Embassy note no. 1377, dated Nov. 25, 1952, not printed (795B.5/12–452).

[2] In Colombian Embassy note no. 796, dated Aug. 26, 1954, the Colombian Government proposed as a basis for conversations concerning readjustment of its participation in Korea that it withdraw the Colombian Battalion, but maintain its frigate *Captain Tono* under UN Command (795B.5/8–2654).

In a memorandum, dated Sept. 9, 1954, the United States informed the Colombian Government that the UN Command in Korea had been requested to discuss with the Commander of the Colombian Battalion the necessary arrangements for the withdrawal of Colombian ground forces (795B.5/8–2654).

795B.5/11–2852

The Deputy Secretary of Defense (Foster) to the Secretary of State

CONFIDENTIAL WASHINGTON, November 28, 1952.

DEAR MR. SECRETARY: Reference is made to a draft position paper,[1] prepared by the Department of State to serve as guidance in conducting negotiations with Colombia concerning reimbursement for logistic support furnished Colombian ground and naval units in Korea. The draft was forwarded for clearance by the Department of Defense on 15 September 1952.

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[1] *Ante*, p. 783.

The Department of Defense concurs in the conclusions of the paper, subject to the following comment. Agreement by the United States to a settlement with Colombia providing for other than full reimbursement on a current basis would involve the exercise of the President's emergency powers. A letter from the Department of Defense to the Department of State dated 27 September 1952,[2] which was concerned with the general subject of reimbursement, expressed the view of this Department that the decision to utilize the President's emergency powers in such cases should be made by the President. This Department accordingly does not agree with the concept underlying paragraph 4(b) of the *Conclusions* that the President's approval should not be sought unless a complete waiver of reimbursement is involved. This Department interposes no objection, however, to proceeding with the negotiations and resolving any difference of opinion on that point at a later time if it should become necessary to do so.

The draft position paper refers on page 1 to the Colombian note of 14 November 1950,[3] in which Colombia recognized an obligation to reimburse the United States. That note refers, however, only to reimbursement for logistic support and services furnished to the Colombian infantry battalion. Assurances concerning payment for logistic support provided by the United States Navy are contained in separate correspondence between the Chief of Naval Operations and the Colombian Naval Attaché, Washington.

It is requested that the Department of Defense be given as much advance notice as possible of the date selected for the negotiations with Colombia in order that representatives to take part in the negotiations may be designated. Informal notification will be acceptable.[4]

Sincerely yours,

WILLIAM C. FOSTER

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[2] Not printed.

[3] See footnote 3, p. 784.

[4] A memorandum of conversation, dated Dec. 3, 1952, drafted by Mr. Goldstein, reads in part as follows:

"It was agreed that the Department of State should proceed with negotiations with Colombia in accordance with the letter of November 28, 1952 from the Department of Defense. Mr. Goldstein was asked to make necessary arrangements with the Department of Defense. (After the meeting Mr. Goldstein called Col. Craig Davis, established the date of December 15 as the target for the start of negotiations, and obtained assurances from Col. Davis that financial data on the claim of U.S. against Colombia would be assembled before that date.)" (795B.5/12-352)

Miller files, lot 53 D 26, "Colombia"

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Miller) to the Director of the Office of South American Affairs (Atwood)[1]

SECRET [WASHINGTON,] December 15, 1952.

[Subject:] Reimbursement Negotiations with Colombians

I am agreeable to the proposal to initiate negotiations with the Colombians as soon as possible concerning reimbursement for the battalion. I also have no objection to requesting from the Colombians in the first instance full reimbursement for the cost which the U.S. Government has incurred in connection with the training, transportation, equipment and maintenance of the battalion.

However, I wish to reiterate that as the principal civilian involved in the negotiations which led up to the Colombian offer of the battalion, it was the distinct understanding at the time of the negotiations that the terms of the reimbursement, both as to amount and the currency of payment, was to be left for subsequent negotiations. In the conversations which General Ridgway and General Bolte had with Ambassador Zuleta and the then Minister of War Dr. Roberto Urdaneta, now Acting President of Colombia, it was repeatedly stated to them that our principal concern was the urgent necessity of getting other UN units in the field in Korea and that the question or reimbursement was of minor importance as compared to the principal objective. The Colombian Government would never have made the offer of troops for Korea if they had expected to bear the full expense in dollars. In my opinion the fact that we have not settled the Colombian case on a basis satisfactory to Colombia in accordance with that understanding is the primary reason why we have not obtained other troop offers from Latin American Governments all of which are worried about the high cost involved in participating in the Korean operation in proportion to their annual budgets.

Furthermore, during the discussions which Mr. Acheson and General Bolte had with the Foreign Minister of Brazil[2] during the Foreign Ministers' Conference in March 1951[3] and that General Bolte and I had with the Chileans and Peruvians at that time, we repeatedly stressed the fact that reimbursement for any troops they might send would be subject to negotiation both as to amount and as to the currency of payment. The representatives of the other Governments involved were repeatedly given the impression that our primary concern was to obtain troops for Korea and that the question of reimbursement was of lesser importance to us.

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[1] Drafted by Assistant Secretary Miller.

[2] João Neves da Fontoura.

[3] Reference is to the Fourth Meeting of Consultation of Ministers of Foreign Affairs of American States, held in Washington, Mar. 26–Apr. 7, 1951; for documentation on the meeting, see *Foreign Relations*, 1951, vol. II, pp. 925 ff.

795B.5/1-2753

The Acting Secretary of Defense (McNeil)[1] *to the Secretary of State*

SECRET WASHINGTON, January 27, 1953.

DEAR MR. SECRETARY: Reference is made to a letter from Assistant Secretary of State Hickerson dated 4 December 1952[2] concerning a proposal by Colombia to substitute a field artillery battalion for its infantry battalion in Korea.

Attached is a memorandum from the Joint Chiefs of Staff dated 5 January 1953 containing conclusions and recommendations concerning this matter, with which I concur.

In any discussions with Colombia of a 105mm howitzer battery to supplement Colombia's infantry battalion, it appears likely that the financial obligation to be assumed by Colombia would be an important consideration from Colombia's viewpoint. It would be undesirable if Colombia were to gain an impression that the United States affirmatively desires that Colombia supplement its infantry battalion with an artillery battery. If the matter is discussed, it is suggested that it be made clear to Colombia that the United States is simply attempting to cooperate with Colombia's stated desire to obtain a nucleus of combat-trained artillerymen, and that Colombia should expect to reimburse the United States for services, equipment and logistic support furnished to the unit by the United States.

Sincerely yours, W. J. MCNEIL

[Enclosure]

Memorandum by the Joint Chiefs of Staff to the Secretary of Defense (Lovett)

SECRET [WASHINGTON,] 5 January 1953.

Subject: Substitution of a Field Artillery Battalion for the Colombian Infantry Battalion in Korea

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[1] W. J. McNeil, Assistant Secretary of Defense (Comptroller).

[2] The referenced letter reads in part as follows:

"The Department is considering the political implications of such a change on the United Nations collective effort in Korea. While we assume it would be preferable that the contingent of Colombian infantry in Korea be maintained in its present form, we recognize that the Colombian Government might become more insistent that its request for substitution be granted. In order to assist the Department in its consideration, it would be helpful if the Department of Defense would determine whether such a change-over would be desirable and feasible from a military point of view." (795B.5/12-452)

1. In response to your memorandum, dated 12 December 1952,[3] subject as above, the Joint Chiefs of Staff have considered the proposal by the Colombian Government to replace its infantry battalion in Korea with a field artillery battalion and have concluded that, from a military point of view, it is neither practicable nor desirable to effect this change-over.

2. The foregoing conclusion is based on the following considerations:

a. The requirement for infantry units in Korea exceeds the requirement for additional 105mm artillery units.
b. Such substitution could conceivably form the basis for similar requests from other nations.
c. The language barrier inherent in having a Colombian artillery battalion supporting U.S. infantry units.
d. The logistical problem created by the addition of another battalion of artillery from the standpoint primarily of availability of weapons and ammunition.

3. Although it is desirable that member nations of the United Nations be encouraged to increase their contributions in Korea to units of at least regimental combat team size, it is recognized that Colombia and other small nations cannot afford to contribute and support such large units. The substitution of an artillery battalion for an infantry battalion would constitute an actual reduction in personnel and overall combat effectiveness.

4. If the Colombian request is prompted by a desire to obtain a nucleus of combat-trained artillerymen, this objective could be attained by their furnishing a 105mm artillery battery to supplement their infantry battalion, such as presently provided by the Philippine Government. However, it is recognized that the administrative burden placed upon the U.S. unit to which the Colombian battery is attached would far outweigh any tactical value such a unit would have.

5. The Joint Chiefs of Staff recommend that the request of the Colombian Government to substitute a 105mm artillery battalion for their infantry battalion in Korea be denied.

6. It is further recommended that, should the Colombian Government offer to furnish a 105mm howitzer battalion in addition to their infantry battalion, such an offer be refused. Such a unit would not have the same utility to the United Nations Command as a similar U.S. battalion, and for such a battalion to continuously support the Colombian infantry battalion would be economically and tactically unsound, based upon the number of artillery units presently available. Moreover, it is understood that Colombia does not have more than 8 105mm

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[3] No copy found in Department of State files.

howitzers at the present time, thus requiring a considerable number of 105mm howitzers to be furnished by the United States. However, in view of the expressed desire of the Colombian Government to train artillerymen as well as infantrymen, the Joint Chiefs of Staff recommend favorable consideration be given to the furnishing by the Colombians of a 105mm howitzer battery in addition to their infantry battalion. The Colombian Government should be requested to provide the major items of equipment for this unit to the maximum extent practicable.

For the Joint Chiefs of Staff:
OMAR N. BRADLEY
Chairman
Joint Chiefs of Staff

721.56/1-2853

Memorandum of Conversation, by Albert H. Gerberich of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] January 28, 1953.

Subject: Failure of Colombia to Receive Military Supplies

Participants: Ambassador Cipriano Restrepo-Jaramillo
Mr. Bernbaum—OSA-NCA
Mr. Gerberich—OSA

The Ambassador stated that there has been great dissatisfaction in Bogotá over the failure of the Colombian Government to receive military supplies promised as a result of the visit of Minister of War Bernal to the United States last July.

The Ambassador said that following Bernal's conversations with high officials in the Pentagon, the Colombian Government presented a requisition for materials amounting to about $3,500,000. The export of these items was finally approved by the Allocation Board and the Colombian Government deposited the required amount with the U.S. Treasury, insisting on the urgent need for shipping the supplies for use in anti-guerrilla operations. The Ambassador stressed strongly the tieup between Communists and guerrillas in the forces operating against the Government, and said that notwithstanding all the proofs of friendship that Colombia has given the United States none of these supplies whatsoever have been delivered.

He went on to say that under the Bilateral Pact the Colombians were told that they would receive four B–25J's and two F–47's during 1952 and six B–25J's and eleven F–47's during 1953. The Minister of War was told that these planes would be delivered to the Colombians in the Canal Zone or its neighborhood. Not one has been received; nor is there any reason to hope for the receipt of any in the near future.

The Ambassador said he could not recall that the Colombians have received any military supplies promised them under the Bilateral Agreement besides certain spare parts for planes.

He emphasized strongly that this situation is making it extremely difficult for the Government to resist pressure from the Army to pull back its troops in Korea. He said he is really surprised at our failure to cooperate, in view of Colombia's participation in the Korean warfare. He handed Mr. Bernbaum a memorandum[1] on the subject.

Mr. Bernbaum told the Ambassador we would study his memorandum and inform him at our earliest opportunity just what the facts are in the issues he has raised.

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[1] Not found in Department of State files.

821.413/6–353

The Ambassador in Colombia (Waynick) to the Department of State[1]

SECRET BOGOTÁ, June 3, 1953.

No. 967

Subject: Our Policy With Respect to the Protestant Difficulties in Colombia

The present Ambassador for the United States in Colombia presented his credentials in August 1951. At that time I was advised that the most troublesome matter affecting our relations was the persecution of Protestants in this strongly Catholic country. Nearly two years have elapsed and I am unable to report basic improvement in the conditions which control the intolerance.

For what value it may be to the Department in current appraisal of the problem, I am attempting analysis of existing conditions and forwarding a brief review of the cases of persecution which have been the subject of protest by the Embassy during my stay in Colombia. We have had 11 of these cases and in a tabulation, which is made part of this despatch,[2] I am indicating what they were and what was done about them. During the same period there have been many other instances of the persecution of Protestants but these have involved Colombians only, or other nationals than those of the United States.

I have felt that the Colombian Government has manifested an increased degree of concern over the cases we have protested, but evidence of this lies more in an abortive effort to establish a formula for religious peace and in prompter response to the Embassy Notes than in any substantial basic effort to change conditions, either by punishment of offenders or by efforts to reduce the incitation to persecution.

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[1] Drafted by Ambassador Waynick.

[2] Not printed.

The agitation against Protestant missionaries and congregations by certain priests of the Catholic Church, in spoken and written word, continues unabated and the harsher efforts by provincial priests have met with no positive and effective condemnation by clerics in high position. On the contrary, the utterances of some of the more scholarly members of the Catholic hierarchy have appeared to be encouraging to the agitators. There is frequent repetition of the claim that the Catholic faith and the unity it provides is the foundation of Colombian solidarity and that the Protestants are enemies of the State as well as the one "true Church". Much of the propaganda against the Protestants condemn them as political meddlers, and frequently they are denounced as Communists and supporters of the banditry which disturbs the public order.

It is important to recognize that some of the persecution is based in sincere belief of a portion of the priesthood that it is better for a Colombian to "go to the street of the prostitute" than to "go to the street of the Protestants". The Catholic Church was established in Colombia by the Spanish conquerors and priests who came with them nearly a century before European colonization began in the United States. It was founded here by Catholics from a country that for nearly 800 years had struggled with the Moor and identified loyalty to the Church and the State as one and the same thing. They speak of the importance of their Catholic solidarity which they claim the Protestant infusion is endangering, while ignoring the fact that Catholics in various parts of Colombia are murdering each other, engaging in a species of civil war. Their scholars charge the recurrent wars of modern Europe to the schismatic effects of Protestantism and ignore the fact that their own country has been torn with even more constant warfare. Their conviction about the importance of supporting the Church is deep and a more positive policy with respect to the persecution than we have employed will be required to effect important change. A firmer policy would risk the loss of what good will we have in the country.

One inspiration for this present discussion of the problem is the fact that the Minister with whom I have dealt is now being replaced by a new appointee who comes fresh from his post as Ambassador to Spain where he consummated a treaty recently which emphasizes anew the kinship of Colombia with the old fatherland. That treaty pledges the two countries to guard each other against adverse publicity and even pledges the rewriting of text books where needed to promote the consciousness of common hispanidad. This new Minister, son of a poet of the city of Popayán, an ancient center of Catholic culture, is not likely to have any more friendly concern about the Protestant problem than the man whom he succeeds has. So a pertinent question exists for the Embassy and for the Department: Are we to continue treating these instances of persecution of Protestants only as protection cases when Americans or American property are involved, or is there a better and more basic approach with hope of success? Another question: Should a positive new effort be made before a new Constitution is promulgated?

Some months ago a native Colombian who is pastor of a well-attended Presbyterian church in Bogotá made the suggestion during a visit to the United States that we might employ economic sanctions to compel Colombia to honor some of the commitments she has made with respect to religious freedom. The fact of this suggestion got back to Colombia and President Roberto Urdaneta Arbelaez denounced this pastor as disloyal, during a personal conversation we had about the religious intolerance. The position of the Colombian Protestant pastor was that various forces are being applied in all parts of the world, including the United States, to make the people more self-conscious and concerned about injustice to minorities and he thought that we might use sanctions here if we really believed in the freedoms we have professed.

Our policy has been sufficiently tolerant of the crucifixion in Colombia of several of the freedoms to which we have dedicated our democracy and which we have supported in international convenants as to give rise to question among "liberal" Latin Americans as to whether we will risk anything important in times of peace to substantiate principles upon which we go to war. Many with whom I have talked who are most inclined to favor our brand of democracy accuse us of arming and supporting dictators in governments who show little respect for any one of the basic "Freedoms" we advocate. I have noted what seems a lessening of concern about our faith in the freedom of religion, the freedom of speech and press, and the freedom from fear. Perhaps there is a little increased emphasis for political purposes on "freedom from want", as most of the governments trampling on other freedoms protest that they are concerned about lifting the level of the well-being of the masses.

We have been pressing upon the Latin republics, where scant respect is shown these freedoms, both technical aid in their domestic economy and military aid. Even here, where opinion is vigorously suppressed when it is in opposition to the government, more than a hint of Liberal condemnation of this cooperation of ours is manifest. So even when we gain the support of a Latin government like that of Colombia for our international purposes, we run the risk of increasing the conviction among the people of the country who have the highest respect for our enunciated principles that our professions of faith are not to be construed as something for which we will take any considerable chances in countries with which we are at peace.

Very recently the head of the Catholic Church, in a public address, called for the marshalling of Christian forces for something like a Holy War. All comment upon that war cry here indicated that Christian is generally interpreted to mean the Catholic faith.

There may be some justification for the charge leveled against us that we have catered unduly to the Catholic majority in our relations with Latin America. We have sent into Latin countries some Catholic clerics whose lectures intended to promote better understanding between our country of religious freedom and a country like Colombia that may have had the opposite effect, and the feeling has grown in strong Catholic circles that there is no need of beng too tender with the schismatic "hill billy" cults of the United States where Catholicism is making headway against "heresy". That is not conducive to conditions under which we may expect revision of the resolve of ruling forces of Colombia to maintain intact the "Holy Catholic Faith", even with physical force, if necessary. Certainly no authoritative voice is raised in this country against the persecution of Protestants and when some Liberal newspaper, or individual, dares to advocate tolerance, that spokesman is bludgeoned into silence as hostile to the true Church and the "democratic" order of the nation.

We have been confronted for some time with a somewhat arrogant position of the Colombian Embassy in Washington with respect to the Treaty of Friendship, Commerce and Navigation, negotiated during the time when Dr. Eduardo Zuleta Angel was Colombian Ambassador to the United States. That Treaty has been awaiting confirmation by the Senate of the United States and the Senate of Colombia. Repeatedly, the Washington Embassy has informed the Department that there is no likelihood of the Treaty being confirmed in Colombia as written because of the fear that under its terms the Protestants would demand privileges. As Colombia gets ready to formulate a new Constitution, there is good reason to believe that the guarantees of religious freedom will be reduced and weakened at the instance of Catholic leadership. It seems probable that the new Constitution will spell out in clear terms the most repressive interpretation given to the present constitutional guarantees of religious liberty. It seems likely that the provision will be tolerance for worship behind closed doors by those who are not of the Catholic faith, and that that will be the extent of "religious freedom" under the law.

In handling the overt cases of attacks on American nationals and property in the religious cases, I have seen no advantage to be gained by any procedure other than prompt protest and demand for protection and investigation of the charges of injustice. Great public disorder has afflicted the country during my presence here and I know that for every Protestant missionary, or Protestant, who has been attacked or killed, hundreds of other and frequently Catholic nationals of Colombia have died under circumstances of equal brutality. It would be extremely difficult for the government to give protection in all cases of violent outbreak even though it earnestly desired to do so.

Tolerance inspired by these special conditions has little bearing upon what should be our basic long-range policy with respect to our relations with nations which do not honor perhaps the most prized of the freedoms to which our own democracy is dedicated. Any stronger effort to affect the behavior of Colombia in the matter of religious freedom should be fashioned at a very high level. To put it another way, do we need to deliberate now whether we should be satisfied with a policy that regards these instances of attacks on our nationals and their rights as individual protection cases, or whether we are ready to be more positive in insistence upon religious liberty for which guarantees have been written in some of the recent charters for world-wide adherence?

Recently there has been a tendency in some quarters to hold that most of the intolerance here is directed against "Yankees" rather than against Protestant missionaries or Protestants. In my opinion, the element of truth in this is that more of the missionaries and missionary efforts originate in the United States than in other countries. Actually, the persecution seems to be no respecter of nationalism.

From time to time the concern about these matters has reached Protestant areas of the old world. The reports of persecution were discussed in the Dutch Parliament last year, and within the past month the matter has been brought up in the House of Commons in London. The incident that occasioned the comment in the Commons was an attack on a British Protestant missionary, Samuel Heap, who was operating in the Cundinamarca town of Ubaté. The new British Ambassador, R. Keith Jopson, told me that a Note of protest in the Heap case was sent to the Foreign Office of Colombia while he, the Ambassador, was waiting to present his credentials. He informed me that the Foreign Minister was reasonably prompt in promising full investigation and that "depositions are being taken" in the case. He has heard nothing further.

Ambassador Jopson advised me that his Foreign Office has communicated to him additional information about the English reaction to the persecution. He has been informed that further repercussions may be expected as the stir caused by the reference to the matter in the Commons was spreading and that the Protestant bodies were becoming more insistent on a firmer policy, looking to a basic assurance that religious freedom will be protected in Colombia where British nationals are concerned.

The Ambassador advised me that his Foreign Office, believing that nothing was to be gained by a vigorous change of policy, has been trying to treat each case as an *ad hoc* matter of protection, but advised the Ambassador that this position is going to be increasingly difficult to maintain in the face of a rising concern in England about the matter.

The Ambassador was wiring his Foreign Office which had suggested that he might want to discuss the matter fundamentally, not only with the Government but with the new Cardinal of Colombia, with a view to trying to promote a definite stand by the Catholic hierarchy against persecution. The British Ambassador was inclined to recommend that the approach to the hierarchy be made through the Vatican and the new Nuncio who is expected to report here in June. He stated to me that he wanted to add to his telegram that he recommended that any such approach be sought to be made jointly with the United States and he asked me if I had any objection to his making that recommendation, or saying that the U.S. Ambassador agreed with him. I suggested that he limit his reference to the statement that he had quoted to me, making it his recommendation, as I would wish to discuss more fully with him what fundamental approach might be made and how such an approach would be influenced and affected by the peculiar circumstances of public disorder existing in Colombia.

This despatch is little more than a review of former reports but it seems to me a desirable recapitulation in view not only of some suggestions made to the Department that we should be more positive here in support of the persecuted but of the suggestion that there may be more pressure soon from other nations, whose nationals are involved in instances of violence. The fact that most of the American missionaries with whom I have dealt express approval of the course the Embassy is following does not obscure the basic failure of policy to afford guarantees of protection.

No doubt, this country could be bludgeoned into an improved policy or into what would amount to a break with the United States by threat of economic sanctions. We buy most of Colombia's coffee which is her principal export and a chief base of her economic life. There is an increased flow of investment capital from the United States here and an increased consciousness of the need for it. The country is taking intelligent advantage of our technical aid and of loans from U.S. banks. So we have the power to wreck the country economically but naturally it is a power we have no disposition to employ.

I have hoped that Colombia's increasing pride in her international status would promote adulthood in observance of international codes which incorporate guarantees of religious freedom. The Embassy has sought to encourage a change of conditions by emphasizing the readiness of the United States to cooperate in the great potential development of Colombia. These efforts are inadequate to effect great or quick change. While I offer no definite recommendation based upon the facts discussed in this despatch, I point out that one possibility would be a conference of representatives of countries interested, with outstanding Colombian leaders of Church and State, with a view to a frank discussion of the terms under which non-Catholic religions can have their being in Colombia and of the conditions under which Protestant educational and religious institutions might exist in peace. I mention this as a possible device because of the fact that the new Constitution is to be expected in a reasonable time with new language bearing upon these issues. If such a conference were to be promoted, it should be after full discussion in the Department and overtures to certain Catholic leaders in the United States who might be influential in the matter.

Enclosed is the tabulation of the cases referred to at the beginning of this despatch.

CAPUS M. WAYNICK

Editorial Note

On June 13, 1953, Lieutenant General Gustavo Rojas Pinilla launched a successful Army *coup d'etat* against the regime of President Laureano Gómez, which resulted in the deposition of Gómez and his replacement by a military junta of 13 officers under the leadership of Rojas Pinilla. The progress of the coup and related political developments were reported in despatch 990, from Bogotá, dated June 17, 1953, not printed (721.00/6–1753). Additional pertinent documentation is in file 721.00 for 1953.

721.02/6–1553

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] June 15, 1953.

Subject: Recognition of New Government in Colombia

The attached telegram[2] foreshadows recognition of the new Colombian Government and I therefore feel you should approve it.

Quite apart from the question of the Korean negotiations, we feel that the new Government is one to which we can by implication extend a positive welcome in that it appears to have the support of the majority of the Conservative Party and to be viewed benevolently by the Liberal Party. It also appears disposed to return Colombia to the democratic paths from which it has recently strayed. Moreover, the new Government should certainly be no worse than the old in regard to persecution of Protestants in Colombia.[3]

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[1] Drafted by Assistant Secretary Cabot.

[2] No attachment was found with the source text. The reference is apparently to the Department of State circular telegram 1205, dated June 15, 1953, requesting information from Latin American governments concerning their plans with respect to recognition of the new Colombian Government (721.02/6–1553).

[3] The United States resumed diplomatic relations with Colombia on June 18, 1953. For text of the Department of State press release 326, dated June 18, announcing its decision, see Department of State *Bulletin*, June 29, 1953, p. 927.

795B.5/9–2453

The Assistant Secretary of State for United Nations Affairs (Murphy) to the United States Representative at the United Nations (Lodge)[1]

SECRET [WASHINGTON,] October 20, 1953.

DEAR CABOT: Your letter of September 24[2] to the Secretary on the question of Colombian reimbursement, in which was enclosed the memorandum given to you by Ambassador Urrutia, has been considered by the Department.

Having actively participated in the recent top-level review of the reimbursement problem, you will recall that the National Security Council adopted a new formula in July which would give the Department of State greater flexibility in settling bills such as that owed to the United States by Colombia for logistic support received in Korea at an amount less than full reimbursement.[3] As you are aware, the new formula would also assist the Department in conducting negotiations looking towards an increase in the participation of other United Nations Members in Korea. However, the new NSC policy has not been put into effect, awaiting the opinion of the Attorney General requested by the President, on whether there exists a legal basis in present legislation for the new reimbursement formula, and if not, on the nature of any new legislation which would be needed. Our concern over the delay in rendering the legal opinion prompted me to raise this matter with Mr. Robert Cutler on October 2. I am enclosing a memorandum of conversation[4] for your information.

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[1] Drafted by Joseph J. Sisco of the Office of UN Affairs.

[2] Not printed (795B.5/9–2453).

[3] For documentation relating to this subject, see volume xv.

You will note from the memorandum of conversation that Mr. Cutler has requested Mr. Brownell to draft a statute which could be used as a basis for new legislation. It is Mr. Cutler's intention to submit Mr. Brownell's draft to the NSC Planning Board. Since there is no assurance that the new reimbursement formula can be implemented without obtaining new legislation, we can expect substantial delay before we can consider settlements with present participants in Korea at less than full reimbursement. The Department prefers that no suggestion regarding possible action by the Executive Branch to secure new legislation be given to the Colombians at this time as they are not adverse to converting such information to their own use.

With respect to Ambassador Urrutia's memorandum, we do not believe there is much to be gained from an attempt to refute the arguments contained therein. We have always considered the problem of Korean military assistance apart from the aid which countries have been given by the United States. The Colombian Government is well aware that a number of Governments which have received substantial aid from the United States suffered considerable damage during World War II. However, we believe that it would be helpful if you could inform Ambassador Urrutia that the matter raised in his memorandum is under active consideration in the Department and that Ambassador Zuleta-Angel will be requested shortly to call on Assistant Secretary John M. Cabot for an exchange of views.

Without making reference to the article which appeared in the October 1 issue of the *New York Times*, in which a Colombian official is reported to have said that if his country was expected to pay for the equipment issued to the battalion which it had sent to Korea, the troops should drop that equipment and come home, you might also emphasize to Ambassador Urrutia the desirability of avoiding public statements which might make more difficult the amicable settlement of this problem and undermine our negotiations with other United Nations members with forces in Korea.

Sincerely yours,

ROBERT MURPHY

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[4] Not printed.

821.413/11-1253

Memorandum by Albert H. Gerberich of the Office of South American Affairs to the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] November 12, 1953.

Subject: Briefing memo on Protestant situation in Colombia; recommendations.

Since the *coup d'état* of June 13 incidents of violence against Protestants in Colombia have virtually ceased (there has been one against a British missionary, but I have heard of none against any American.) In this respect the Rojas Government has brought about a healthy improvement in the situation, and one that had been devoutly wished for.

The Rojas Government has taken one step, however, that is fraught with danger not only to the Protestants in Colombia, but to the existence of religious freedom in that country. On September 3 the Secretary General of the Ministry of Government published a circular to all departmental and territorial governors, informing them that no "Protestant pastors or missionaries" were in the future to be permitted to carry out their religious functions in those parts of Colombia classed as "Mission Territory" in the Concordat with the Vatican. The term "Mission Territory" was redefined on January 28, 1953, by the "Convenio de Misiones" with the Vatican in such a manner that it takes in more than half of the territory of Colombia and affects the largest Protestant congregation in the country (at Barranca Bermeja), as well as the San Andres y Providencia Archipelago, where over 90% of the population is, and always has been, Protestant.

The inclination of both the Embassy and the Protestants at first was to wait and see whether the Government would actually enforce the terms of the Ministry of Government's circular. Many are of the opinion that President Rojas had nothing to do with the circular, that it was promulgated at the instance of extremists in the Church, and that he does not approve of it. Certainly his statement to Mr. Barber[1] on October 23, that he had "every belief that there could be a friendly resolution of the problem" points in that direction.

Nevertheless, in the last few weeks notice has been served on American Protestant missionaries at Istmina and Noanamá in the Chocó (Mennonite), at Barranca Bermeja in Santander (GMU), and at Leticia on the Amazon (Baptist), that they shall abandon their missions and cease their activities. In the two Chocó towns there was an actual order of explusion; in the Leticia case the authorities sealed up the Baptist Church; in the Barranca Bermeja case the local alcalde permitted the church to remain open but forbade public proselytizing.

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[1] Willard F. Barber, Chargé d'Affaires, U.S. Embassy, Bogotá.

The Embassy has protested the Chocó and Leticia cases and the attached telegram[2] gives the latest ruling by the Foreign Office: (1) the Chocó cases have been referred back to the Governor of that Department and meanwhile the order of expulsion is suspended; (2) pastors may hold services indoors but may not propagandize or proselyte. My information (from the National Association of Evangelicals) agrees with the Embassy's statement that the Protestants will accept the terms under (2) above, as a last resort, in order to remain in those areas till better days.

The Embassy urges that this issue be taken up with Foreign Minister Sourdis[3] while he is in Washington, and I would indorse that recommendation. Our Embassy people have not discussed this problem directly with Dr. Sourdis. The British Ambassador raised the question with Sourdis, according to Embassy Bogotá, but received a pretty cold response. I would suggest that if such talks fail, we should seriously consider a joint approach to the Colombian Government with Great Britain, Canada, Switzerland, Holland, and Sweden, all of whom are interested in the problem, as they have nationals who are missionaries there.[4] We have never had a satisfactory reply to any of our twelve notes of protest on incidents of religious persecution involving Americans in the last two years. The British Embassy has had the same experience.

If the circular of the Ministry of Government stands, Protestantism is practically proscribed in more than half the territory of Colombia. Colombian citizens who are Protestant pastors may no longer carry on public worship; Colombians who are Protestant laymen will find no place in which to worship. This last telegram even hints that permission may be refused to Protestants to attend Protestant services, which would be a violation of the ideal of religious freedom unique in this hemisphere, so far as my knowledge goes.

There is attached a sheet[5] giving some statistics on Protestant missions in Colombia and some facts on churches located in what is now known as "Mission Territory" and thus threatened with closure in light of the recent circular. In my opinion this list of 37 churches and chapels, which I have put together after consulting the best sources available, does not contain all of them. I am also unable to say positively what their total value is or how many of them are owned by the local congregations rather than the U.S. I have the figures for Istmina and Noanamá, where the missionaries have been ordered to get out.

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[2] No telegram was found attached to the source text; presumably a reference to telegram 167, from Bogotá, dated Nov. 10, 1953, not printed (821.413/11–1053).

[3] Evaristo Sourdis.

[4] A note attached to the source text, addressed to Mr. Gerberich, dated Nov. 17, 1953, initialed by Mr. Cabot, reads as follows: "We must distinguish clearly between what is Protestant and what is American in any action. Can you specify more clearly?"

[5] No attachments are printed.

There is also attached a copy of the wording of the first paragraph of Article XIV of our Treaty of 1846 with Colombia,[6] which guarantees freedom of worship and freedom from annoyance on account of one's religious belief.[7]

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[6] Reference is to the Treaty of peace, amity, navigation, and commerce, signed at Bogotá, Dec. 12, 1846, and entered into force, June 10, 1848; for text, see 9 Stat. 881.

[7] In a memorandum of conversation between Deputy Assistant Secretary of State Woodward and Colombian Ambassador Zuleta Angel, dated July 12, 1954, concerning the religious situation in Colombia, the Ambassador is recorded as having stated that "the most that Colombia is willing to concede to the Protestants is that they may worship in their own churches, chapels and other places of worship . . . and that they will be permitted to have schools in which to educate Protestant children." The memorandum, drafted by Mr. Gerberich, reads in part as follows: "The Ambassador made it abundantly clear that he and his Government are thoroughly anti-Protestant in sentiment, and that the Conservative Government is determined to prohibit any deliberate proselytizing and will give no assurance of protection to Protestants who are attempting to convert Catholics to Protestantism." (821.413/7–1254)

721.00/1–2054

Memorandum by the Special Assistant to the Secretary for Intelligence (Armstrong) to the Secretary of State

CONFIDENTIAL [WASHINGTON,] January 20, 1954.

Subject: Intelligence Note: The Political Climate in Colombia

In the first six months of his administration, President Rojas of Colombia has redeemed his promise to restore public order. His promise to restore constitutional processes remains to be fulfilled.

The ending of more than four years of savage and ruinous guerrilla operations in Colombia was accomplished by proffers of amnesty and of rehabilitation aid to the guerrillas. Beyond this basic and indispensable achievement, Rojas has formulated a program with wide potential appeal. He has pledged that his administration will rehabilitate areas damaged by civil strife, reestablish civil liberties, protect capital, institute agrarian reforms, raise rural standards of living, and hold elections. Thus far, however, his "non-political" government has done little to deliver on any of these promises and, what is more, has shown little evidence of being able to do so.

Rojas's political strength has deteriorated. His main support comes from the Church and from a minority Conservative faction led by Gilberto Alzate Avendano, an opportunist and extremist primarily interested in furthering his own presidential ambitions. The majority group of Conservatives, the moderates, is dissatisfied, largely because it has not been given any decisive voice in either government or party affairs. The aggressive followers of former President Gomez, many of whom have lost lucrative government posts, are reportedly organizing in some regions for armed action. The Liberals, who hoped the Rojas regime would provide the auspices for their political comeback, have become somewhat disillusioned by the growing militarization of the government and by the President's increasingly apparent intention of perpetuating himself in office. Important industrial and agricultural interests are disturbed because of recent tax increases.

Despite the President's pledges to hold national elections, the administration is expected to depend more and more upon authoritarian controls to maintain power. At the same time, Rojas may strive to build up a pro-government labor group in the manner of President Peron of Argentina. The deciding factor in Rojas's political future will be the military establishment. Thus far the armed forces are as a whole loyal to the President, although dissension, involving personalities as well as policies, has occurred among top army officers.

A similar memorandum[1] has gone to the Under Secretary.

W. PARK ARMSTRONG, JR.

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[1] Not printed.

State–JCS Meetings, lot 61 D 417

Memorandum on Substance of Discussion at a Department of State–Joint Chiefs of Staff Meeting, Held in the Pentagon, 2 p.m., February 26, 1954[1]

TOP SECRET

[Here follow a list of those present (11) and discussion of matters relating to the Berlin Conference and Trieste.]

Reimbursement of Logistic Support for the Colombians in Korea

Mr. Murphy mentioned this matter had been discussed with Admiral Davis. We would like to pare down the charges against the Colombians, by way of making a gesture to them at the opening of the Caracas Conference.[2] Ambassador Lodge was supporting a bill which would give the President a freer hand in reducing the financial burdens of foreign forces supplied from U.S. logistic support. The Colombians had raised the question of their capacity to pay and even though this may not be a valid consideration, we had hoped that some relief might be given them before the Caracas Conference, but this now seems impossible.

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[1] Admirals Radford (Chairman) and Carney, and Generals Ridgway and Twining were present. Mr. Murphy headed the Department of State group.

A note on the source text reads as follows: "(State Draft. Not cleared with any of participants.)"

[2] Reference is to the Tenth Inter-American Conference, held at Caracas, Mar. 1–28, 1954; for documentation on the conference, see pp. 264 ff.

Admiral Carney favored relief for the Colombians, expressing admiration for their willingness to participate in Korea.

Admiral Radford pointed out that we control the amounts charged. Out of $10 million expenses incurred, we had already billed the Colombians for $5 million and presumably it might be possible to arrange the matter in their interest. Some other nations, particularly the Philippines, had indicated they might pull out of Korea owing to the heavy expenses involved.

Mr. Murphy suggested the possibility that Secretary Dulles might confidentially work out some arrangement with the Colombians at Caracas.

Admiral Radford pointed out that it was fair to charge the U.K. for the logistic support since they were receiving other military aid. The Colombian case might be different.

Mr. Murphy mentioned that financial questions will assume importance at Caracas, particularly Export-Import Bank loan policy. The State Department wished to put the Colombian problem before the JCS and would appreciate any help which the latter might give.[3]

[Here follows discussion of a matter unrelated to Colombia.]

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[3] The notes of the Secretary's staff meeting, held on Mar. 4, 1952, designated SM N-211, read in part as follows:

"4. The Acting Secretary [Mr. Smith] and Mr. Murphy pointed out that the JCS and Defense were taking contradictory positions on the question of Colombian reimbursement. General Ridgway had informed Mr. Murphy that the JCS was ready to concur in any recommendation which the Department might make to reduce the Colombian payments while Mr. Kyes, on the other hand, had stated to the Acting Secretary that such payments could not be scaled down." (Secretary's Staff Meetings, lot 63 D 75)

The notes of the meeting also indicate that Acting Secretary Smith directed Mr. Murphy to draft a letter to Secretary of Defense Wilson to obtain a clarification of the matter, in order that the Secretary might be in a position to discuss it with Colombian Foreign Minister Sourdis at Caracas. No such letter was found, however, in Department of State files.

Mann–Woodward files, lot 57 D 598, "Colombia"

The Deputy Assistant Secretary of State for United Nations Affairs (Wainhouse) to the Deputy Under Secretary of State (Murphy)[1]

CONFIDENTIAL [WASHINGTON,] March 31, 1954.

Subject: Logistic support for the Korean action.

I refer to Mr. Morton's memorandum of March 24[2] in which he informed me and others in the Department that Defense "Will not wish to go ahead this session on the combined bill to authorize transfer of military equipment to the ROK and settlement with the participating UN countries for logistic support." I suggest the following:

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[1] Drafted by Mr. Sisco.

[2] Attached to the source text, but not printed

1. That Mr. Murphy telephone his counterpart in Defense with a view to getting a definite commitment from Defense that the Colombian Government would not be expected to pay more that the amount for which it has already been billed ($5,950,000).

2. I would urge, however, that we go ahead on legislation limited to UN participants (excluding ROKs) regardless of the response given to us by the Defense Department. While the problem of Colombian reimbursement is more immediate, there are other participants in Korea with whom negotiations are pending. Moreover, we should not lose sight of the fact that we are seeking legislation in order to implement the policy adopted by the NSC in July 1953. This policy has a two-fold purpose: (1) to permit reasonable settlements with participants in Korea at less than full reimbursement; and (2) "to obtain and *retain* the maximum contributions of effective manpower from nations allied with [the U.S.] in the effort of the UN to repel aggression in Korea." This means that we would want to have flexibility in offering financial inducements to present or future participants in Korea in order to maintain the present line or to increase UN contributions in the event of a renewal of aggression.

3. In the event we decide not to seek legislation, the Department should consider the advisability of informing the NSC that the policy adopted in July 1953 cannot be implemented under present circumstances.

4. I understand that there is a cleared State Department draft of legislation[3] limited to UN members which would be appropriate for submission immediately. Moreover, UNA and E have prepared a draft letter of transmittal[3] which could be sent with slight modification by the Department to the Vice President with a view to having the bill considered in the Senate Foreign Relations Committee.

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[3] Not printed.

795B.5/9–1454

Memorandum of Conversation, by Joseph J. Sisco of the Bureau of International Organization Affairs

CONFIDENTIAL [WASHINGTON,] September 14, 1954.

Subject: General Assembly Comments; Colombian Reimbursement for Logistic Support in Korea.

Participants: Dr. Jose Chaves, Counselor, Colombian Embassy
IO—Mr. Sisco

[Here follows discussion of support for certain candidates seeking election to General Assembly offices.]

Dr. Chaves said he wished to convey a message to the Department from Amb. Zuleta relating to the problem of Colombian reimbursement for logistic support provided to its battalion in Korea by the U.S. He said that Amb. Zuleta had been told by the President at a White House tea, at which the For. Minister of Colombia was present, that a decision had been taken by the U.S. Government that no reimbursement was expected from the Colombian Government. Dr. Chaves went on to say that Secretary Dulles at Caracas had visited the Colombian Minister of Foreign Affairs and had made a similar statement to him. Dr. Chaves also said that Messrs. Cabot and Holland had likewise given similar assurances to Amb. Zuleta. In light of these commitments, Dr. Chaves said he was requesting that the Department put the above assurances in writing. Dr. Chaves also said that this matter has been under consideration within the U.S. Government for over a year and that in his view it cannot be left up in the air. He said that Amb. Zuleta intended to go to the President on this matter if necessary.

I said I was aware that we had informed the Colombian Government previously that we had the matter under consideration and that we were looking into ways in which the Colombian reimbursement problem might be solved. However, I was not aware of any specific commitment given to the Colombian Government which freed it entirely from reimbursing the U.S. I acknowledged that the matter had been under consideration for some time, and I indicated to him that the Department would give early consideration to his request for a written assurance.[1]

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[1] The issue of reimbursement to Colombia for logistic support in Korea was not resolved during 1954.

795.00/11–1254

Memorandum by Albert H. Gerberich of the Office of South American Affairs to the Assistant Secretary of State for Inter-American Affairs (Holland)

SECRET [WASHINGTON,] November 12, 1954.

Subject: Korean Reimbursement Problem.

You will recall that we have not been able to make a settlement with Colombia because the Attorney General[1] last year said that new legislation would be required to permit settlements at less than the full amount due. Although the Department offered a draft bill for this purpose, differences between Defense and the Budget Bureau prevented its presentation to the Congress at the last session.

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[1] Herbert Brownell, Jr.

In order to avoid waiting until the next session of Congress, we have developed a new approach to the legal question that may enable us to obtain an opinion from the Attorney General authorizing us to proceed without new legislation. After discussion with the Executive Secretary of the National Security Council,[2] it was recently decided that General Cutler, the President's assistant, and the Legal Adviser's office in the Department would raise the matter with the Attorney General. We hope this will be done in the next few days.

Until the Attorney General changes his position or, if necessary, new legislative authority is obtained, we cannot make a settlement with Colombia that involves even a partial write-down of its obligations for logistical support in Korea. While the Department will press for an early decision by the Attorney General, we do not know when he will give his answer or what it will be.

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[2] James S. Lay, Jr.

721.5 MSP/12–254

The Chargé in Colombia (Barber) to the Department of State

SECRET
No. 364

BOGOTÁ, December 2, 1954.

Subject: Colombian Interest in Further U.S. Military Assistance

Summary

The Colombian Government has repeatedly expressed its desire for additional military assistance from the United States. Requests of this nature may be made to Secretary of Defense Wilson when he visits Colombia in January 1955. In considering such a request, the Embassy recommends that certain factors be carefully examined. These factors include the recent interest of Colombia in seeking arms and military training from non-United States sources, and consequent disregard for arms standardization; the ability of Colombia to utilize increased amounts of military equipment; the effects of increased military expenditures on Colombia's economy; and political criticism, particularly by the Liberal Party, of United States military assistance to Colombia.

The visit to the United States of Foreign Minister Evaristo Sourdis, other recent reports of pending Colombian requests for large-scale additional grants of MDAP equipment and the probable motivation behind President Rojas Pinilla's invitation to U.S. Secretary of Defense Wilson to visit Colombia all highlight the interest of the Colombian Government in an expansion of its military facilities through U.S. assistance. It is, therefore, timely to examine the extent to which U.S. military assistance is fulfilling certain facets of U.S. military and political policy objectives in Colombia.

Arms Standardization

[Here follows discussion of Colombia's efforts to purchase arms and to secure military training in countries other than the United States.]

It is, therefore, evident that the Colombian Government is failing to fulfill completely the U.S. objectives of standardization of equipment and training. In addition to arms received from the U.S. or purchased in the U.S., Colombia is seeking military equipment and, to a lesser degree, military training and advice, from non-United States sources for a variety of reasons. These include such technical motives as prices, availability, and delivery terms and also, it is believed because certain non-United States sources provide more likely opportunities for remuneration in terms of kickbacks and "special commissions".

Utilization of MDAP Equipment

Despite the known desire of the Colombian Government to expand its military facilities, reasonable doubt exists as to its ability to absorb more rapidly greater quantities or more complicated types of military equipment. The degree of utilization of equipment furnished to date under the MDAP, particularly Army equipment, is not entirely satisfactory. Despite the fact that equipment for an antiaircraft automatic weapons battalion has long been furnished, the Colombian Army has not been able to organize this battalion on a satisfactory basis. The general level of education of the Army, particularly given the relatively short period of service of the recruits, the failure of the Armed Forces to provide an attractive career for enlisted men, especially those who receive technical training, psychological reasons inherent in the Colombian mentality, and the fact that the trained officer category of the Army has been utilized in civilian administrative positions by the Government of the Armed Forces have all contributed to this situation. Except for acquisition of two destroyers and limited numbers of small amphibious craft, Colombia, at present, cannot readily absorb large additional increases in U.S. military grant aid assistance.

Budgetary Burden Represented by Military Expenditures

During the last three years, expenditures on its armed forces by Colombia have increased dramatically. The following table gives in millions of pesos* military and total appropriations from 1952 through 1955:

Year	*Military Appropriations (Armed Forces National Police)*	*Total Appropriations*
1952	185.2	750.7
1953	255.4	943.5
1954 (thru Sept.)	307.4	1,129.7
1955 (initial budget)	243.0	939.2

To the 1954 military appropriations should be added 6,000,000 pesos for the Colombian Intelligence Service and a high percentage of the 17,400,000 appropriated for the Presidential Office. The 1955 figures are taken from the initial budget. Based on previous experience, supplementary budgets will increase these figures by anything up to 50 percent during the course of the year. The 1955 military appropriations cited do not include initial appropriations of 8,000,000 pesos for the Colombian Intelligence Service and 17,400,000 pesos for the Presidential Office. In addition to the figures cited, other military costs are scattered throughout other budget categories, particularly under Public Works, Colonization, etc.

Effects of Military Expenditures on Economic and Social Planning

The ever increasing military expenditures enumerated above raise a question concerning the ability of the Colombian economy to support the ambitious military programs of the present Government and at the same time carry out the policies of education, improvement in the standard of living, industrialization, diversification of the economy and other programs which support U.S. political, economic and social policy objectives in Colombia. The Colombian Government is a military government. There is no effective civilian counterbalance within it to the aspirations and desires of the military. Recent Colombian newspaper comment has pointed out the discrepancies between the economic and social needs of Colombia and the military burden she is required to support. An editorial in the November 30 *El Tiempo* commenting on the need for domestic Colombian efforts to improve her own lot following the Rio Conference stated "If we dream a senseless and vain dream of being a militaristic country with great armaments which are equally great anachronisms in this atomic era; if we play with great plans . . . and ignore the humble, hard and tremendous necessity of the Colombian people . . . then we are headed straight for a catastrophe."

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*One (1) peso equals U.S. $0.40. [Footnote in the source text.]

Political Criticism of U.S. Military Assistance

The current U.S. policy of emphasizing the role of U.S. private investment in economic assistance to Latin America contrasts in the eyes of some segments of the Colombian population with our military assistance which of necessity is on a Government to Government basis. In Colombia the Liberal Party in particular has been the spokesman for that group which in its partisan press gives a distorted picture of U.S. policies towards Latin America. Dr. Eduardo Santos, ex-President of Colombia and owner of the influential Bogotá *El Tiempo*, emphasized this view in a speech he delivered during a conference on "Responsible Liberty" at Columbia University in October 1954. In his speech in New York, Dr. Santos said "In this era of the atomic bomb with these new and fabulously expensive arms, these systems based on thousands of millions, what are our poor countries going to do ruining themselves with armaments which would represent absolutely nothing in an international conflict? Then we are creating armaments insignificant in international life but crushing to the internal life of each country. Each country is being occupied by its own army."

Frequent reflections of this same opinion have appeared in the Liberal press. The Rio Conference and the consequent enumeration of domestic economic goals and of economic assistance desired from the U.S. have increased the number of these references.

The Liberal criticism of U.S. military assistance policies should not be taken entirely at its face value. To the Liberals, criticizing U.S. military assistance also represents a method of attacking the Government of the Armed Forces and of emphasizing the burden of military expenditures in Colombia at the cost of needed economic and social improvements. Nevertheless, these views are those of what is probably the majority party in Colombia and express in the only way possible under present censorship conditions the civilian reaction against the spendthrift military policies of the Government of the Armed Forces.

Conclusion

In considering further increases of military assistance to Colombia, therefore, both military and political considerations should be taken into account.

1. Militarily, the Embassy questions whether Colombia can effectively expand its military machine at a more rapid pace than is envisioned under the existing MDA program for Colombia.
2. It might be well to remind Colombia of the desirability of observing a greater degree of arms and personnel training standardization in the interests of continental defense than she has recently shown.

3. Economically, the Colombian economy is approaching the point where the military establishment can only be supported at the cost of needed social and economic advances.

4. Politically, there exists a danger of further alienating the Liberal Party by supplying large additional amounts of military equipment, and thus "abetting" Colombian militarism.

In view of the proposed visit of Secretary of Defense Wilson to Colombia in January 1955 (Department's Telegram No. 63 [*62*] of September 28, 1954[1] and Embassy's Telegram No. 86 of October 4, 1954[2]) it is suggested that the problems involved in increased military assistance to Colombia enumerated above be reviewed by the Department, and should the Department perceive no objection, be brought to the attention of Secretary Wilson prior to his departure for Colombia.

WILLARD F. BARBER

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[1] Not printed (033.1121/9–2554).

[2] Not printed (033.1121/10–454).

721.5 MSP/12–854

Memorandum by George O. Spencer of the Office of Regional American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Sparks)

SECRET [WASHINGTON,] December 8, 1954.

Colombia is receiving grant military assistance required to activate the following military units which Colombia has agreed, under a bilateral military assistance agreement and a secret military plan, to prepare and commit for collective hemisphere defense: one anti-aircraft battalion, one infantry battalion, two destroyers, two patrol craft, one fighter squadron and one light bomber squadron.

The Colombian commitment to designate the infantry battalion specified above for hemisphere defense was made very recently and the commitment made it possible for us to permit the Colombian battalion returning from Korea to retain military equipment in their possession valued at about $400,000.

Several months ago the Colombians submitted a note[1] which complained rather bitterly that Colombia had not received its fair share of U.S. military and economic assistance provided Latin American countries during the last few years. The Colombian Ambassador was informed that if he would indicate specifically the additional military equipment desired by Colombia, we would take the request under consideration in consultation with the Pentagon. About ten days ago we received a cable[1] from our Embassy at Bogota warning us that the

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[1] Not printed.

Colombians would submit a detailed list of equipment which, in the opinion of the Embassy and the U.S. military representatives in Colombia, had no relationship to Colombia's bona fide military requirements or capabilities for maintaining and using such equipment. Shortly afterwards we received a formal Colombian request[2] attaching several long lists of equipment which have been transmitted to the translators and duplicating people in the Department to be put in shape for submission to the Pentagon. The lists bear out our Embassy's view that the Colombians appear to be literally asking for the moon. Among other things they want equipment for several infantry units, a squadron or more of aircraft, a submarine, several destroyers, etc.

There is no money available out of existing appropriations to meet a request of this size submitted by any Latin American country. No final decision on the amount of money to be requested from the Congress for the Latin American program next year has been made, but preliminary plans for next year's program developed by the Pentagon call for no increase in the number of Colombian units to be supported by U.S. grant assistance. However, we understand that the Joint Chiefs plan to review the whole problem of grant assistance for Latin America and it is barely possible that they will recommend a small increase for Colombia, although it is extremely unlikely that they would approve anything like the increase desired by the Colombians.

Recommendations:

(1) The Colombian Ambassador may be informed that we do not have funds to comply with the Colombian request during the present fiscal year; (2) he may be told that the Pentagon and other concerned agencies are at present developing plans for foreign military assistance programs to be conducted during FY 1956 and that the Colombian request is being referred to the Pentagon for consideration in connection with the development of those plans; (3) it should be made plain to the Ambassador that if it is considered desirable from the U.S. military point of view to comply with the request, necessary funds will be required from our Congress next year; (4) the Ambassador should in no way be encouraged to believe that it will be possible for the U.S. to comply with the request.

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[2] Department of State files indicate that the referenced request was handed to Mr. Sparks at the Department on Nov. 29, 1954, but no copy of the request was found in the files.

COSTA RICA

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND COSTA RICA[1]

718.56/1-2952

Memorandum of Conversation, by the Director of the Office of Middle American Affairs (Nufer)

CONFIDENTIAL [WASHINGTON,] January 29, 1952.

Subject: Costa Rica's Desire to Purchase New Arms in the United States and Dispose of its Present Stock of Military Equipment

Participants: Ambassador Oreamuno of Costa Rica
Ambassador Albert F. Nufer, Director, MID

At the Cuban Embassy reception yesterday evening, Ambassador Oreamuno inquired about the latest developments with regard to Costa Rica's desire to purchase new arms in the United States and to dispose of its present stock of military equipment. He was particularly anxious to know when arrangements for the sale of the latter could be completed. I told the Ambassador that I would investigate and report back to him today.

In discussing this matter with Mr. Siracusa and Mr. Spalding, I learned that Defense had written Ambassador Oreamuno on January 12 listing the arms and equipment available and the cost thereof which, I understand, totals about $830,000. Defense asked the Costa Rican Government to place its order within thirty days for the equipment it desired to purchase. . . .

Ambassador Oreamuno telephoned me this morning and I told him that I understood he had received a letter from Defense to which a reply had not yet been received from his Government. I also said I had been informed that someone would be sent to Costa Rica as soon as possible to negotiate for the purchase of Costa Rica's present stock of arms. The Ambassador said that Costa Rica found itself in a vicious circle in so far as this problem was concerned; that his Government had been able to set aside $100,000 for the purchase of some of the equipment it most urgently needed, but that it would not be able to make out its order for transmission to Defense until it knew definitely what the proceeds from the sale of its present stock of arms would be. If these proceeds total $100,000 as he had heard they might, his Government could at once submit to Defense an order for $200,000 worth of new equipment which, he said, would take care of Costa Rica's most urgent requirements. In view of the thirty-day deadline specified in Defense's letter,[2] it was therefore extremely urgent that the person charged with arranging for the purchase of Costa Rica's present equipment proceed to San José without delay, and he expressed the hope that the Department would do whatever it could to hurry his trip.

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1314 ff.

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[2] No copy of this letter was found in Department of State files.

818.10/2-752

The Second Secretary of the Embassy in Costa Rica (Cunningham) to the Officer in Charge of Central America and Panama Affairs (Siracusa)

CONFIDENTIAL OFFICIAL–INFORMAL SAN JOSÉ, February 7, 1952.

DEAR ERNIE: I have no doubt that it still is the desire of the Department to bolster the Ulate Administration for the reason stated in your letter of last July 11.[1] That letter spoke of the basis on which the Department could support Costa Rican loan applications. I'm writing you now because of the change in the local attitude toward the need for loans and in line with your suggestion that we tell you of any ideas we might have to accomplish the Department's objective

As you probably know, the IBRD mission that visited Costa Rica was of the general opinion that the country's financial position and outlook warrant the granting of loans up to an unstated amount. The Bank's reaction to Ambassador Oreamuno's attempt to discuss loans, however, caused deep resentment here with unfortunate reflections against us because of the fact that even among people who should know better (Mario Echandi,[2] for example) there is a conviction that the United States has practically a decisive voice in IBRD decisions. The Costa Rican decision to carry out its public works and agricultural development programs without IBRD assistance is sound even though it was prompted by resentment against the Bank's rebuff.

It is the present intention to apply to the Bank only for a loan for electric power development and at the present rate of progress such an application will not be ready for submission within several years.

I can't help but feel that the decision to discontinue negotiations with the Foreign Bondholders, an Ulate decision apparently reached in anger, was unwise if only for the reason that resumption of payments will continue to be a prerequisite of such a loan. As the opportunity offers we shall continue to point out the desirability of resuming payments on the foreign debt.

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[1] Not printed.

[2] Costa Rican Minister of Foreign Affairs.

From our position, slightly behind the eight ball because of IBRD's handling of Oreamuno, the situation appears about as follows. Ulate has spent the first two years of his term in doing a splendid job of recuperating the country's financial position. This sort of accomplishment does not impress Fulano de Tal, as Otilio knows, and so his plan for the last two years of his term is to accomplish things which will impress Fulano—a new airport, more roads, more schools, assistance toward improved and increased agricultural production, etc. He has until November 1953 to do that but the elections will be held by July 1953 at the latest.

There are indications that Figueres[3] is not as strong a candidate today as he was a few months ago but it would be unwise to underestimate his possibility of election.

There are several things we might concentrate on in the economic field during the time that is left to us to attain our objective.

1. Make our Point IV program effective to the extent that by the end of this year, 1952, we can point to accomplishments rather than plans. Toward this end I suggest you look over Ambassador Fleming's[4] despatch no. 828, January 16, 1952.[5] I understand that IIAA already is planning for local publicity and this work could be coordinated with 5 below.

2. Reexamine the Alajuela Airport project to determine how we can contribute to the fullest extent to the speedy construction under Costa Rican financing. Our Civil Aviation Mission (Mr. Vigna) already has suggested changes in the plans which will effect considerable savings in construction time and costs. Experts on other phases of the project might examine it to advantage. Advice and assistance on supplies and equipment might expedite work and effect savings.

3. Periodic reexamination of the Inter-American Highway project in Costa Rica with the ultimate objective of completion of as much of that work as funds possible to allot to it will permit by the end of the dry season in 1953.

4. (This is a tough one but with delicate handling may be possible now that Cía. Nacional's[6] position vis-à-vis the Government has improved so substantially during the last year.) Through three-way cooperation between the local Government, U.S. agencies in Washing-

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[3] José Figueres Ferrer.

[4] Philip B. Fleming.

[5] The referenced despatch contains a discussion of Point IV development programs in Costa Rica (818.00 TA/1–652).

[6] Reference is to Cía. Nacional Fuera y Luz (National Power and Light Company of Costa Rica), a subsidiary of American and Foreign Power Company.

ton, and Cía. Nacional, (1) attempt to evolve a long range electric power development program in spite of local apathy, (2) draw up plans and specifications for the necessary generating plant or plants, (3) work out a satisfactory plan for financing the plant, and, (4) assist within our possibilities in obtaining an IBRD loan authorization for the project.

If there is any possibility of accomplishing all this in one year the most positive contribution a third party could make perhaps would be to overcome some of the irritating antagonisms that now exist. There remains the possibility that technical problems would prevent completion in a year.

5. Conduct a sustained and discreet but effective publicity program in Costa Rica and designed for Costa Rica by OIE (in conjunction with IIAA) to keep pounding away on the main theme—United States contributions to the development of Costa Rica, where democratic principles now are being so well upheld. Do you recall a talk you and I had during your visit about direct application of OIE facilities in this field?

6. (This one is awfully vague.) Now that United Fruit is beginning to become aware of its need of a public relations program, it might be possible for the Department to point out to them how they might attempt to overcome some of the antagonism toward Cía. Bananera by showing how it contributes to the country's over-all development. We would not take part in their campaign.

The above program is ambitious and there is no guarantee that it would be successful. If it's worth trying, it will take concerted effort here, in the Department, and among the agencies that will be involved. Any chances of success would require a lot of time by someone who would be made responsible and see it through.

The Ambassador and Phil[7] agree that these thoughts might merit some consideration; we recognize that it is extremely vague.

Sincerely yours,

FRED CUNNINGHAM

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[7] Philip P. Williams, First Secretary of Embassy, San José.

Miller files, lot 53 D 26, "Costa Rica"

Memorandum of Conversation, by John L. Ohmans[1] of the Office of Middle American Affairs

SECRET

[WASHINGTON,] March 21, 1952.

Subject: Costa Rica's desire to negotiate a Bilateral Military Assistance Agreement.

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[1] Costa Rican Desk Officer.

Participants: Señor Don J. Rafael Oreamuno, Ambassador of Costa Rica
Colonel Manuel Ventura, Military Secretary to the President
ARA—Mr. Miller
MID—Mr. Ohmans

The Ambassador called at his request to introduce Colonel Ventura, the Military Secretary to President Ulate and to discuss Costa Rica's desire to negotiate a Bilateral Military Assistance Agreement with the United States.

After commenting on the impressive ceremony at Arlington Cemetery where Colonel Ventura laid a wreath, and also upon the accident of President Ulate in the morning, the Ambassador inquired whether Mr. Miller knew of the note[2] which the Costa Rican Foreign Minister[3] had delivered to Ambassador Fleming concerning the Costa Rican desire for a military agreement. Mr. Miller said that he was familiar with the Costa Rican aspirations, but in all frankness he said that the United States could not take such an action at this time. He explained that in reality the United States and the Costa Ricans were talking about two different things when speaking about the proposed pact. He assumed that Costa Rica was principally interested in developing its force for the maintenance of internal security. He contrasted that desire with the agreements with such countries as Ecuador, Brazil, Peru, and Cuba for the preparation of forces to handle definite larger responsibilities with respect to the defense of the continent. Mr. Miller said for example that this included anti-aircraft battalions and air squadrons for missions outside their own countries.

However, Mr. Miller was happy to state that as a result of Costa Rica's request, the Departmental officials had been studying very seriously steps which could be taken to help Costa Rica, and he understood that it was possible for the Western Arms Co. to facilitate the purchase by Costa Rica of ammunition at a substantially lower price than had previously been offered. . . .

The discussion then turned to congressional legislation on the Inter-American Highway. Mr. Miller pointed out that progress thus far was quite satisfactory, and while it was not thought likely that the $8,000,000 a year would be authorized for the highway construction, it might well be that $6,000,000 would be approved by the congressional leaders. Ambassador Oreamuno was very pleased to hear this information and told Mr. Miller of Costa Rica's desire to accelerate construction work on the northern part of the highway, and affirmed once again that Costa Rica would put in $700,000 as its matching funds share for the construction work.

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[2] Reference is to Costa Rican Foreign Office note no. DM/542–B, dated Mar. 11, 1952; a copy and translation of the note were transmitted to the Department of State under cover of despatch 1019, from San José, dated Mar. 13, 1952, not printed (718.5 MSP/3–1352).

[3] Fernando Lara Bustamente.

After the meeting the Ambassador and Colonel Ventura went to Mr. Ohmans' office where they were joined by Mr. Spalding. Mr. Spalding said that the Western Arms Co. was prepared to sell the Costa Rican Government the ammunition at a price considerably lower than the price which had been quoted by the Department of the Army. This news was received with much gratification by the Ambassador. In response to Mr. Spalding's request Ambassador Oreamuno promised to supply him with an exact list of the amounts of ammunition desired by his government.

718.56/8-2652

Memorandum by John L. Ohmans of the Office of Middle American Affairs to the Officer in Charge of Central America and Panama Affairs (Siracusa)[1]

SECRET [WASHINGTON,] August 26, 1952.

Subject: Costa Rican Arms Exchange

Costa Rica finally has taken some definite action in the prolonged arms transaction. Legislative approval was obtained to sell arms up to the value of $100,000 to the Western Arms Corporation. At the moment, however, nothing more than the first shipment of $11,000 worth of antique and obsolescent arms can be shipped until suitable replacement material is received.

The matter has been pending since early in 1951 when Costa Rica desired assistance in obtaining arms from the United States. They did not have funds to purchase them, however. We offered our cooperation and even agreed to grant them a more than favorable price for their obsolescent arms to aid in the purchase. There has been a long delay on the part of Costa Rica in the sale of the old arms, and money originally budgeted for the purchase of arms in the United States was later taken from the budget to be used on public works projects.

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[1] Addressed also to George O. Spencer of the Office of Regional American Affairs.

In April of this year we asked the Embassy four questions and a short time ago received these answers:

a. *Ques*. Does Costa Rica wish to purchase all or any part of the arms which the Army offered in accordance with its letter offer of August 30, 1951,[2] to Ambassador Oreamuno?

Ans. Yes. According to Oreamuno, Costa Rica is interested in purchasing the entire lot of arms listed on the enclosed[3] photostatic inventory which are valued at $224,579.50. However, in view of the fact no funds are available this fiscal year, the purchase cannot take place until some time after January 1, 1953. Ulate told Oreamuno he would ask Congress to appropriate the necessary funds at the start of the next fiscal year in January; however Ulate stipulated that he reserved the right to decide when he would place the order spending these funds. Oreamuno added that Congress would probably put a time limit of November 8, 1953 (Inauguration Day) on the spending of this special appropriation.

I advised Oreamuno that it is doubtful whether the Department of the Army will be able to continue to hold available that equipment which has been set aside for delivery to Costa Rica.

b. *Ques*. If Costa Rica does wish to purchase any or all of the arms, when can its letter of acceptance and payment be expected?

Ans. Not until sometime after January 1, 1953. Although Oreamuno feels that no difficulties or delays will be encountered when Ulate asks Congress for funds for new arms, past experience suggests that a month or more may be required to obtain Congressional approval. On this basis, funds conceivably would not be available until February or March, 1953.

c. *Ques*. If the arms are purchased, does Costa Rica wish to negotiate with the Western Arms Company for the purchase of the ammunition?

Ans. No. Despite the possibility of lower prices, both Ulate and Oreamuno feel that any purchase of new arms or ammunition should be made from the U.S. Government. Apparently, Ulate is fearful of adverse criticism resulting from any negotiations with a private firm for purchase of munitions, it being noted that previous Administrations have been heavily censored for alleged "dubious" transactions.

d. *Ques*. Does Costa Rica intend to sell all or any part of its old arms which were tentatively purchased by the representative of the Western Arms Company; if so, when and under what conditions will Costa Rica ship the $11,000 worth of antique rifles?

Ans. Yes. Present plans contemplate sale of all current arms to the Western Arms Corporation as authorized by the contract which was approved by Congress on July 28, 1952. This contract will expire on September 10, 1953. However, nothing more than the first shipment of $11,000 worth of antique arms can be sold until suitable replacement material is received.

The $11,000 worth of antique rifles will be shipped during the last week of August, 1952 according to Colonel Ventura.

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[2] Not printed.

[3] No enclosure was found attached to the source text.

Proposed Course of action—We should tell the Army the next time it inquires as to the disposal of the arms set aside for Costa Rica that the possible purchase of arms by Costa Rica is somewhat indefinite and the arms should be released. Costa Rica may seek some additional funds after January 1953 and may attempt to order arms later that Spring. Yet it seems reasonable to assume that the small amount of arms which Costa Rica desires to obtain can be obtained easily from stocks on hand and prepared for fairly prompt delivery.[4]

We may now with confidence sit back and wait further Costa Rican action. The record will show that we have endeavored to facilitate shipment of new arms to Costa Rica in every way that we can.

We can expect possible Costa Rican action early in 1953. At that late date I predict its officials will ask for arms on a rush basis to help assure order during the bitter campaign and vote election. It is also quite likely that there will be a continued effort on the part of Costa Rica to obtain free grant aid as part of the Military Aid Program.

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[4] At this point the source text bears the following handwritten marginal notations, initialed by Mr. Jamison: "Can we be sure of this? If we take this action we should so notify the Costa Ricans?"

718.5 MSP/1–953:Telegram

The Ambassador in Costa Rica (Fleming) to the Department of State

TOP SECRET

SAN JOSÉ, January 9, 1953—5 p.m.

124. Depcirtel 722, January 7[1] and Depcirgam November 24.[2] Only pertinent sections deal with operations Point IV program despatch forwarded today.

Costa Rica has successful plan economic development in which TCA program plays prominent part. Program reaches highest form acceptance and effectiveness. Results are evident improved methods agriculture and better sanitation practices. Costa Rican people well aware technical assistance given by US, and consider it friendly act enlightened sister nation.

A major objection has been achieved Point IV program agricultural extension operations Costa Rica: Jointly financed Agriculture Cooperative Service (STICA) initiated 1948 now completely run by Costa Ricans, will be absorbed by Ministry Agriculture in about two years. Most operations thereafter will be financed entirely by Costa Rican

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[1] Circular telegram 722 requested reports from chiefs of diplomatic missions abroad concerning the status of programs under the Mutual Security Act of 1951 (700.5 MSP/1–753).

For text of the Mutual Security Act (Public Law 165), approved Oct. 10, 1951, see 65 Stat. 373.

[2] The referenced circular airgram, dated Nov. 24, 1952, contained reporting instructions for reports submitted by chiefs of diplomatic missions on the status of programs under the Mutual Security Act of 1951 (700.5 MSP/11–2452).

Government. This has been made possible by strict adherence policy training nationals to exercise initiative and assume responsibility plan and carry out own activities and designing programs tailored meet Costa Rican budgetary limitations.

US trained Costa Ricans have been requested for technical assistance in Panama, El Salvador and Honduras. 1955 US-Costa Rican joint program funds for agriculture should be used carry on preparation advanced plans for opening up new regions through irrigation, drainage, power development, etc.

Other TCA projects in Costa Rica in fields health, civil aviation, public administration, etc., are proceeding satisfactorily.

Two basic dangers success technical assistance program exist: (*a*) attempt at too much direction from topside in promoting new programs, and (*b*) duplication effort through overlapping activities various multilateral agencies.

Past ten years experience developing technical assistance methods in Latin America by IIAA have demonstrated operations must be centralized under guidance director technical cooperation with advice and assistance other sections Embassy. Technical assistance must be limited to desires and needs host country. No excuse for grave error of persuading country accept technical assistance it can never hope maintain once US financial support withdrawn.

The problem of duplication arises more or less from same basic over-emphasis.

Technical assistance programs multilateral agencies, philanthropic institutions, etc., should be directed to activities which[3] does not undertake such as exchange technicians and students, scholarships, grant funds for establishing laboratories, translation technical data, etc.

TCA program, properly understood and applied, is most effective instrument international cooperation. Immense scope eventual possibilities made useful contribution all who wish participate but such contributions should not be allowed frustrate or cancel in any way basic operations being conducted by Point IV field parties.

FLEMING

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[3] At this point in the source text, five characters were omitted in transmission.

718.00/8–653

Memorandum by the Officer in Charge of Central America and Panama Affairs (Leddy) to the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON], August 6, 1953.

Subject: Costa Rican Elections: Action Required by ARA

1. The presidential and congressional elections held in Costa Rica on July 26, 1953, were marked by orderliness, calm, and high voter participation. Women voted for the first time in Costa Rica, apparently about evenly divided between the two candidates. The Embassy reported the elections as "an example of democratic education rarely seen in Latin America or elsewhere and a tribute to the country's history and to President Ulate who maintained the highest degree of neutrality".

2. The elections resulted in an overwhelming victory for José Figueres and his National Liberation Party. Figueres was elected President by 121,108 votes against Castro's[1] 65,625 votes, 65% of the ballots cast. The National Liberation Party elected 30 of the 45 Deputies to Congress, against 11 for Castro's Democratic Party, 1 for National Union and 3 for National Independent Republicans. The opposition to Figueres is decimated and demoralized. Apart from Castro's overwhelming defeat, note must also be taken of the crash of Mario Echandi who joined forces with Castro but was able to elect only one deputy for his National Union Party.

3. On a plebiscite to change the Constitution, allowing an ex-President to be a candidate again after the lapse of one instead of two terms, the amendment was adopted by a vote of 110,049 to 47,230, or 70% of the ballots cast. This amendment is important, in that it opens the way for President Ulate to run again in 1958 instead of 1962.

4. The resounding victory of José Figueres enables him already to boast of the "mandate of the people". His sweeping control of the Congress will assure him a free hand to push through his own legislative program, prominent among which will probably be measures affecting the United Fruit Company, and the American and Foreign Power Company, the two leading American investments in Costa Rica.

Among many reasons for Figueres' victory are his vigorous two-year grass roots campaign and his appeal to the masses in promises of a better life; and the colorless, conservative character of Castro, handicapped by the taint of the "Calderonistas",[2] and standing on a negative platform of "anti-Figuerismo".

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[1] Fernando Castro Cervantes.

5. Figueres' triumph has been publicly applauded by the Guatemalan Foreign Minister[3] and privately deplored by Somoza.[4] No reaction from Honduras, El Salvador, and Panama has come to notice, but all three governments are (in an ascending scale) apprehensive of Figueres as a "stirrer-up of trouble" in Central America.

6. Predictions of Figueres' defeat or narrow victory having proven false, the net result is a striking advance for leftist liberalism in Central America, with its well-known implications on relations with the dictator countries, Caribbean stability, and large American investments. Whether it will mean Communist progress remains to be seen; Figueres' party led the successful movement to outlaw the disguised Communist Party in Costa Rica and, for whatever motives of political expediency or political sincerity, proclaims an anti-Communist platform. The Communists supported the conservative Castro in the campaign.

7. Figueres has already taken steps to reassure our Ambassador that he is anti-Communist and citing as proof his move to outlaw the Communist Party, both in 1948 and 1953, and the label of "Yankee agent" put on him by the Communist press of Guatemala. He repeated that he is pro-U.S., and says there is no reason why he cannot be anti-United Fruit Company on its contracts in Costa Rica and friendly to the American Government and people at the same time.

8. The inauguration of Figueres as President will take place on November 8, 1953, one week after Panama's Fiftieth Anniversary of Independence. Since this date is approximately three months away, we should give immediate consideration and prompt action to the following:

Nomination of American Ambassador to Costa Rica.[5] Assignment of well qualified FSO as Deputy Chief of Mission (to arrive about October).

Organization of delegation to inauguration. (Perhaps some of delegation to Panama can attend Costa Rica's inauguration.)[6]

It is suggested that these points be reviewed as soon as possible and MID/P will be glad to have the opportunity to discuss them with you.

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[2] Reference is to the political followers of Rafael Angel Calderón Guardia, President of Costa Rica, 1940–1944.

[3] Raúl Osegueda.

[4] Anastasio Somoza García, President of Nicaragua.

[5] Ambassador Fleming's mission terminated on Aug. 7, 1953.

[6] For information concerning the U.S. Delegation to the inauguration of President Figueres, see Department of State *Bulletin*, Nov. 2, 1953, p. 586.

811.05118/9–453

Memorandum of Conversation, by the Director of the Office of Middle American Affairs (Burrows)

CONFIDENTIAL [WASHINGTON,] September 4, 1953.

Subject: United Fruit Company Officials Describe their Operations in Costa Rica

Participants: The Under Secretary[1]
Messrs. Joseph Montgomery (Vice President), Kenneth H. Redmond (President) and Jefferson Coolidge (Chairman of the Board)—United Fruit Company
Charles R. Burrows, Director, MID

Mr. Montgomery suggested that Mr. Redmond describe to the Under Secretary his recent conversation in Costa Rica with President-elect Figueres. Mr. Redmond stressed throughout his discussion of this conversation the apparent change in the direction of a more pronounced extremism in Figueres' attitude toward the Fruit Company. Figueres made it clear to Redmond that his intention first is to increase income tax rates from their present 15% maximum to a 30% maximum for Costa Ricans and to 40% or 50% for the Company. As far as the Quepos area is concerned, where the Company is now growing crops other than bananas, Mr. Redmond said he was told it would be expropriated. Figueres said the Company owes a great deal of money in back taxes but that the Government will give the Company a receipt for these taxes and "one dollar" in return for these lands. In reply to suggestions by Mr. Redmond that the action Figueres had outlined would be violations of the Company's contract, Figueres said much has happened since that contract was signed and that he will have only a four-year term of office during which he has much to accomplish.

Mr. Montgomery produced a copy of *The New Leader* of August 31, 1953, which contained an article by Figueres; he described the article as setting forth Figueres' attitude toward foreign capital as a short-term loan and not a permanent investment.

The Under Secretary asked how much the Company could "take" and what they thought Figueres really intends to do. No direct answer was given to the first question; Mr. Coolidge, however, said that whatever the Company accepts in Costa Rica it will be under pressure to accept in other countries where they have holdings. He said they expect Figueres to advance demands which the Company will have to refuse, and then to instigate labor troubles which will lead to progressive stoppage of operations. The result would be extremely costly to both the Company and the country but he said the Company would win out if it is forced into "economic warfare".

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[1] Walter Bedell Smith

The Under Secretary made reference to the difficulty of effective counter action and asked what the Fruit Company representatives had to suggest. Mr. Coolidge spoke of the desirability and urgency of an official statement, not directed against Figueres, but emphasizing the sanctity of contracts. (He left a suggested draft of a paragraph[2] along these lines with Mr. Burrows.) The Under Secretary expressed his distaste for public statements of this kind without more effective action of some other kind to back them up, but said that at least that much could be done. All three of the Company representatives said they did not expect more at this time and that their position would be strengthened if they could refer to moral support of this kind at an opportune moment. There ensued some discussion of the desirability of conveying a private message to Figueres with reference to the interest of the Department of State in proper and fair treatment of American investments abroad, to the importance of economic cooperation and to the sanctity of contracts in general. It was agreed that if this is to be done it should be accomplished before Figueres' inauguration and before his inaugural address.

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[2] Not printed.

818.2376/9-1753

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Acting Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] September 17, 1953.

Subject: Departmental Action Supporting United Fruit Company Negotiations with Costa Rica.

Discussion:

Three top officials of the United Fruit Company informed you on September 4 of the expected contract difficulties with President-elect Figueres of Costa Rica. They urged that this Government make an official statement prior to Figueres' inauguration emphasizing the sanctity of contracts which would give moral support at least to the Company's contract position; and that this same attitude be brought privately to Figueres' attention.

ARA believes that Figueres will attempt to renegotiate the 1949 contract for more national advantages. While Figueres believes that new conditions should bring about changes in contracts, he is nevertheless on record as favoring prompt and effective compensation in case of any nationalization of foreign-owned properties. Figueres may be willing to compromise on his extreme demands. However, should negotiations fail, he may be expected to increase United Fruit's taxes in violation of the Company-Government contract. There is also some reason to believe that the Company may be disposed to compromise with Figueres.

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[1] Drafted by Mr. Ohmans, concurred in by Mr. Burrows and Director of the Office of Regional American Affairs Cale.

Recommendation:

Your approval of the following courses of action is recommended:[2]

(a) I intend to make speeches on October 9[3] and 14[4] which will provide a forum for a reference to this Government's traditional view on the sanctity of contracts.

(b) Mr. Burrows, MID Office Director, and Congressman Donald Jackson will visit Costa Rica on October 24 as one stop on an area-wide trip. A meeting with Figueres will be arranged, and the United States position on the sanctity of contracts and compensation in the event of expropriation will be explained to the President-elect in a way which, it is hoped, will help to facilitate an amicable arrangement between Costa Rica and the United Fruit Company.

(c) As an alternative, or in addition to (b) above, Mr. Allan Stewart,[5] FSO–2, who is being assigned to Costa Rica as Deputy Chief of Mission, and who will arrive there about October 15, will be instructed to call on Figueres and exchange views with him on the Fruit Company problems prior to the inauguration.

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[2] This memorandum was initialed by Acting Secretary Smith.

[3] Reference is to Mr. Cabot's address made before the Pan American Society of New England, Inc., at Boston on Oct. 9, 1953; for text, see Department of State *Bulletin*, Oct. 19, 1953, pp. 513–518.

[4] Reference is to Mr. Cabot's address delivered before the General Federation of Women's Clubs, at Washington on Oct. 14, 1953; for text, see *ibid.*, Oct. 26, 1953, pp. 554–559.

[5] Charles Allan Stewart.

Editorial Note

In his inaugural address, delivered on November 8, 1953, President Figueres stated that the Costa Rican Government planned to review its relations with the United Fruit Company. He also proposed the renegotiation of the Company's contract, which had been signed in 1948 and was not scheduled to expire until 1988. The text of President Figueres' address was transmitted to the Department of State under cover of despatch 363, from San José, dated November 12, 1953, not printed (718.11/11–1253).

811.05118/11-1653

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward)[1]

CONFIDENTIAL [WASHINGTON,] November 18, 1953.

Subject: United Fruit Company in Costa Rica.

I am inclined to agree with Mr. Woodward's points in the attached memo.[2]

It is to be noted that we have steadily urged the United Fruit Company to adopt a broadminded attitude with regard to Figueres' demands. On October 10, for example, I emphasized this to Mr. Coolidge, Chairman of the Board of the United Fruit, as well as to Mr. McClintock.[3] They are fully aware of our view that it is better that they bend before they are broken, and I trust that they share this view at least within limits.

I have also told Ambassador Hill to remind Figueres of the desirability of negotiating an agreed settlement with the United Fruit Company. It seems to me that our attitude should be that we want an agreed settlement rather than an arbitrary stand by either party which, as Mr. Fishburn points out,[4] would place us in an embarrassing position.

I question whether we are in a position to determine the equities of the situation and whether we should make such a determination even if we could. If the position of the United Fruit Company were clearly an abuse, then I think we should strongly urge them to change it but, since it rests on a perfectly valid contract which is not demonstrably unfair to Costa Rica, I do not feel that we should go further than I have suggested above.

Clearly the United Fruit Company is in a different position from the oil companies in that the oil companies are taking a government-owned asset from the ground. The Fruit Company has to buy the land which it uses and pay all costs of improving it and producing the bananas. It takes nothing permanently from the country. To my mind it is questionable whether the mere *right* to produce bananas in a given country is necessarily equivalent to all the costs and risks of producing them. There is, moreover, the question of whether the rules of the game should be unilaterally changed in a major degree against an American company after it has made a bona fide investment; in this respect it is the reverse of the argument which the Latin Americans use about our tariffs.

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[1] Addressed also to John T. Fishburn, Labor Adviser, Bureau of Inter-American Affairs.

[2] In the referenced memorandum, which is undated, Deputy Assistant Secretary Woodward stated in part that he doubted if it was "feasible for the State Department to suggest a specific type of business settlement between the United Fruit Co. and the Costa Rican Government." He also stated that the "magical sound" of a 50–50 profit split could easily turn out to be "something of a delusion" for Costa Rica.

[3] John G. McClintock, Assistant Vice President, United Fruit Company.

[4] In a memorandum, dated Nov. 16, 1953, attached to the source text, but not printed, Mr. Fishburn recommended that Assistant Secretary Cabot should attempt to persuade United Fruit Company officials to accept the idea of a 50–50 split of net profits with the Costa Rican Government.

I understand that the Fruit Company plans to offer Honduras whatever concessions it makes to Costa Rica, so the question of discrimination against countries will presumably not arise.

Beyond urging the two parties to get together for an agreed settlement, I feel that we can watch the course of the negotiations and decide what to do as the negotiations develop. Due to the deplorable public relations of the United Fruit Company, I quite agree that we should be subjected to quite a lot of criticism in Latin America regardless of what happens. I repeat that I do not feel we should uphold the United Fruit Company in anything which appears abusive, but I do feel that the Company has legitimate rights which we should not prejudice ourselves or permit others to prejudice inequitably.

811.05118/11-2553: Telegram

The Ambassador in Costa Rica (Hill) to the Department of State

CONFIDENTIAL NIACT SAN JOSE, November 25, 1953—7 p.m.

50. At his urgent request I visited Foreign Minister Esquivel today to discuss United Fruit problem. Esquivel said he had been chosen by Figueres conduct negotiations with company on basis 50 percent of profits and end "discrimination" by firm against Costa Ricans. When queried about Figueres' expropriation plan (Embdes 389 November 20),[1] Esquivel said it President's long-range plan but he personally opposed to it.

Esquivel asked me as "personal favor" to notify United Fruit that government prepared begin negotiations immediately and President wanted answer soonest whether I willing carry message. I reiterated stand which made President at November 19 meeting, where Esquivel present, that Embassy interested in outcome negotiations but maintaining hands off unless impasse developed, when Embassy would attempt get negotiations started again.[2] Esquivel surprised I had not complied with President's intimation made November 19th that I advise company that government ready negotiate. I reminded him what I had told President about Embassy not desiring get involved in negotiations.

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[1] President Figueres' expropriation plan, as reported in despatch 389, from San José, dated Nov. 20, 1953, not printed (811.05118/11-2053), proposed the Costa Rican Government's purchase of United Fruit Company's physical assets in Costa Rica, amortized over a 12–14-year period, and an arrangement whereby the Costa Ricans would produce the bananas and United Fruit would market them in the United States.

[2] Despatch 389, which contains a summary of a meeting held on Nov. 19, 1953, reads in part as follows: "Ambassador Hill, in the conversation, told the President that he was instructed to closely observe the United Fruit problem but that it was a matter for the government and the company to resolve. If the negotiations became stalemated, the Embassy would be willing to do what it could to get things moving again, but that it was taking no sides in the matter."

I see no advantage for Figueres want Embassy carry this message unless for future exploitation in press but Esquivel, by placing it on personal basis, makes turn-down difficult. I perfectly willing advise Hamer[3] of United Fruit that government wants begin negotiations as Stewart and I agree it unlikely we can remain aloof from this problem, but prefer Department express its views soonest.[4]

Every indication government will drive hard bargain. On November 23, *Official Gazette* published text projected expropriation law which when passed (Esquivel says quick passage by Congress certainty) would give government right expropriate property with little recourse appeal. Esquivel frankly admitted it presented in Congress as means pressuring Fruit Company.[5]

HILL

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[3] Walter M. Hamer, General Manager, Cía. Bananera de Costa Rica (United Fruit Company's subsidiary in Costa Rica).

[4] Telegram 47, to San José, dated Nov. 27, 1953, signed for the Secretary by Deputy Director of the Bureau of Inter-American Affairs Neal, stated that the Embassy was correctly interpreting the Department's position with respect to the United Fruit Company discussions, and instructed Ambassador Hill as follows: "You may, at your discretion, unofficially mention to Hamer statements of Esquivel and then tell Esquivel you repeated his remarks unofficially as personal favor. Make clear to Hamer, emphasize to Esquivel that U.S. not acting as intermediary or spokesman because such not needed in view apparent willingness both parties to have full frank discussion of mutual problems." (811.05118/11–2553)

[5] Negotiations between the Costa Rican Government and United Fruit Company began on Nov. 30, 1953.

811.05118/12–2853: Telegram

The Ambassador in Costa Rica (Hill) to the Department of State

CONFIDENTIAL SAN JOSE, December 28, 1953—2 p.m.

60. Re Deptel 55, December 24.[1] Department should understand we have been working diligently to channel Figueres' thinking away from nationalization United Fruit Company. Record shows considerable success to date. Figueres has been informed repeatedly our position re United Fruit Company negotiations but still persists in trying involve Department. We are aware reasons and only allowed letter[2] be ad-

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[1] Not printed (811.05118/12–1953)

[2] A copy and translation of the referenced letter, from President Figueres to Ambassador Hill, dated Dec. 19, 1953, stating the President's views concerning the Costa Rican Government's desire to renegotiate the United Fruit Company contract, were transmitted to the Department of State under cover of despatch 473, dated Dec. 21, 1953, not printed (811.05118/12–2153)

dressed me to keep negotiations alive and pin Figueres down re nationalization. United Fruit Company requested letter twice without success. I have asked United Fruit Company through San Jose reply directly to Figueres as Embassy had no intention replying unless instructed otherwise.

Believe trip[3] to Pacific banana zone fruitful, gave Stewart and I opportunity reach working class, see other side United Fruit Company, know President better and discuss multitude problems with him. Believe ultimately trip asset rather than liability.

Figueres far from firm in ideas which has expounded and can be influenced if handled properly. We realize Figueres has profited propagandawise at expense United Fruit Company, but at this point I believe it more important get his confidence and allow him a little propaganda instead remaining diplomatically aloof. I believe we have already tempered his attitude toward United Fruit Company and many other problems. Department may be assured that Stewart and I are aware of our responsibilities to Department and protection American interests in Costa Rica. Seriously request consideration my letter to Cabot dated December 24[4] and would appreciate early reply.

Hill

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[3] Reference is to a 3-day inspection tour of banana-producing areas during which Ambassador Hill and Mr. Stewart were accompanied by President Figueres.

[4] A copy of the referenced letter, in which Ambassador Hill requested consultation at the Department, and Assistant Secretary Cabot's reply, dated Jan. 5, 1954, suggesting that the Ambassador spend the latter part of January in Washington for that purpose, are contained in Cabot files, lot 56 D 13, "Costa Rica".

811.95118/2-954

The Ambassador in Costa Rica (Hill) to the Department of State

San José, February 9, 1954.

CONFIDENTIAL

No. 614

On February 6, President José Figueres received Ambassador Hill and the reporting officer at the Casa Presidencial. A Memorandum of Conversation, largely self-explanatory, is enclosed.

It was the feeling of Ambassador Hill and the writer that the President's attitude toward United Fruit Company and U.S. private investment had softened considerably. Ambassador Hill, reporting on his trip to Washington, spoke frankly of don Pepe's detractors on Capitol Hill, information which amply confirmed what had been told him innumerable times before by the Ambassador and the writer.

It is felt that President Figueres has received the friendly advice in the spirit given and is altering his attitude in order to conform to the realities of U.S. policies.

The conversation was carried out in a completely friendly and frank atmosphere and the President's attitude was in sharp contrast to that of last November when he lashed out at United Fruit and became notably agitated when discussing the possibility of attending the Caracas Conference[1] while the Perez Jiménez regime "tortured and killed" his friends.

For the Ambassador:
C. ALLAN STEWART
First Secretary of Embassy

Enclosure

Memorandum of Conversation, by the First Secretary of the Embassy in Costa Rica (Stewart)

CONFIDENTIAL

Participants: President Figueres
Ambassador Hill
First Secretary Stewart

President José Figueres expressed a desire to talk with Ambassador Hill following his return from the United States and on February 6 a meeting was held at the Casa Presidencial.

Congressional Attitude Toward Figueres

Ambassador Hill expressed his pleasure at being back in Costa Rica and told the President he would be pleased to give him his impressions of the visit to Washington if the President was interested. He said he was considerably surprised by the attitude of certain Congressmen who criticized President Figueres for his stand on United Fruit Company and the failure of Costa Rica to make its stand known on attending the Caracas Conference. The President's views on private investment, as published in the *New Leader* and made during the presidential campaign, Ambassador Hill said, caused resentment in certain congressional circles.

The President listened attentively, and when Ambassador Hill was finished said he was glad to receive this frank information. He stated that his feeling toward private investment was completely misunderstood in the United States and was due in a large measure to the title put on the *New Leader* article. He pulled out a letter written to that magazine, mildly complaining that his heading, "A Bold New Program," had been changed to "We Do Not Want Foreign Investments." In the letter he asked the magazine to publish excerpts from his inaugural address to clarify his position.

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[1] Reference is to the Tenth Inter-American Conference, held at Caracas, Venezuela, Mar. 1–28, 1954; for documentation on the conference, see pp. 264 ff.

"For us to not want private investment would be completely crazy," the President said.

He then went on to say that a liberal government such as his would always be criticized by certain Congressmen and others of an extremely conservative bent. He said he realized that his socially inclined government would be accused of being communistic. "I do not get mad at them," the President stated. "One has to be very patient with those kind of people, who generally mean well." He stated that he was convinced that there were no more than five per cent of this type of thinkers who really thought U.S. business should completely control Latin America.

Inter-American Highway

The Ambassador then outlined in detail the thinking of the House Appropriations Committee on the Inter-American Highway. He said that during his testimony before this group that the chairman was openly hostile to appropriating further funds for the road. A more moderate member (Rep. Frank Bow, Ohio), suggested that a sub-committee from the group visit Costa Rica to see the highway and that he (the Ambassador) had forwarded an invitation asking it to come sometime in February.

The President said he was very anxious to have the group visit Costa Rica. Not only would it see what great strides were taken by the Public Roads Administration but also it would give him an opportunity to set the boys straight on his economic philosophy. The President stated that he would personally devote much of his time to the sub-committee during its visit in Costa Rica.

International Bank Loans

The President was interested in news from the International Bank on a $15,000,000 loan for Costa Rica. Ambassador Hill stated that he had talked with Eugene Black, President of IBRD, who expressed interest in the affair and planned to visit Costa Rica around February 25.

The President was pleased to hear this and at the Ambassador's suggestion promised to instruct his various ministers to have detailed studies available for the IBRD head. The President reiterated that he wanted the loan for (1) hydroelectric projects; (2) improvement of secondary roads, and (3) for refinancing and completion of the El Coco airport.

Plans are drawn for the hydroelectric projects. The President's idea regarding secondary roads is to use $2,500,000 for improving some 2,000 kilometers of roads now in use. He said that most of these feeder roads were impassable in wet weather and terribly dusty in the dry months. By surfacing them they would become all-weather arteries and enable farmers and ranchers to reach the main highways.

The President confirmed what everybody knows at present: the El Coco airport cannot be finished until the government obtains more money. This is a field that will replace the present La Sabana airport in San José, which accommodates nothing larger than two-engine planes.

The President repeated that Black's visit would give him a chance to set the record straight on his feeling toward private investment in this country.

United Fruit Company

The President was asked about the United Fruit situation and he began by saying that he had had to settle the strike which tied up operations in the Puerto González area for some weeks. He said negotiations for revision of the present contracts were progressing favorably both in San José and in Washington. The company representative here, Walter Hamer, was in contact with Minister of Finance Jorge Rossi, and the latter had received the terms of the Baggett offer the day before. He added that Foreign Minister Mario Esquivel and Sam Baggett, general counsel of United Fruit, had met several times in Washington.

The President seemed quite pleased that negotiations were moving along and the Ambassador and Stewart had a feeling the company and government were not too far apart on the financial aspects of an agreement. Figueres indicated that the company was willing to waive exemption on several items now imported duty-free and he stated that the government would impose a ridiculously small duty on such items as fertilizer, materials for insecticides, etc. The President quite contentedly said this would be the beginning of an ending of discriminations in favor of United Fruit Company, but he said the period of transition would continue for some years.

The President's reasoned attitude and apparent delight that United Fruit was cooperating satisfactorily in the negotiations contrasted greatly with that of a few months ago, when he bitterly complained of a "country within a country," and described Baggett as a "*fiera*."

The President said he was still studying a reply to United Fruit's letter[2] of last month. In view of Ambassador Hill's adverse report on the feeling toward him on Capitol Hill, he said he would re-state his attitude on nationalization as well as rights of private investment, and investment itself, when he made his reply.

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[2] A copy of the referenced letter, from Walter Hamer to President Figueres, dated Jan. 18, 1954, is contained in MID files, lot 57 D 15, "Costa Rica—United Fruit Company, 1954".

Both Ambassador Hill and the writer were completely astounded by all the sweetness and light. All of it could not have been the result of February 6 being his wedding day.

Dominican Charges

President Figueres said Trujillo's charges of harboring communists was part of a campaign by the dictators to discredit his government. However, he said that Luis Alberto Monge, ORIT Secretary General, had reported that the communists planned to concentrate their labor activities in Costa Rica and Chile and to that end, planned to bring into his country some 20 agitators. The President said Trujillo might have got wind of this move. In any event, the President stated, he would welcome any information Trujillo had and a close watch would be kept on commie activity in the country.

Caracas Conference

With regard to the Caracas Conference, the President said that his country would make its decision about attendance when Foreign Minister Esquivel returned from his trip to the United States. Esquivel was expected in San José around February 10.

The President inquired whether there was any indication that the Perez Jiménez regime would release all political prisoners before the meeting was held. He was told that there was no such indication and it was the Embassy's opinion that any move of this nature would not occur. He said he had heard no more than 200 prisoners were released in the New Year's amnesty and asked whether we had received any estimate. He was told his estimate was higher than ours.

The President was told that the U.S. would present some rather far-reaching economic proposals at the conference and that the Guatemalan situation undoubtedly would be aired. The presence of Costa Rica at the conference would be important in view of these topics, the President was told.

The President made no comment except to state that morality in the hemisphere was at a pretty low ebb at this time.

Lack of Latin American Statesmen

The report of Labor Minister Juan Lechin's resignation from the Bolivian cabinet was brought to the President's attention and he said this development might weaken the Paz Estenssoro government. However, he said, the government would be better off with Lechín in an opposition role, as long as it didn't bring about Paz' downfall. As in the past, he spoke deprecatingly of Lechín, crediting him with little intelligence. "He was just a football player," said the President, which got a big laugh from a couple of broken-down U.S. athletes.

Seriously speaking, the President declared, statesmanship in Latin America was at a pretty low ebb at this time. [Here follow personal remarks.]

MID files, lot 57 D 15

The Assistant Secretary of State for Inter-American Affairs (Holland) to the United States Representative at the United Nations (Lodge)[1]

SECRET [WASHINGTON,] April 12, 1954.

DEAR HENRY: I am greatly interested in your letter of March 15, 1954,[2] which I have now read on my return from Caracas. The views of Pedro Estrada, Chief of the National Security of the Venezuelan Government, on the dangers of Communist activities in the Caribbean area, merit careful consideration, as was indicated by the favorable impression he made on you and the Secretary.

The question of whether the Venezuelan Accion Democratica leader, Romulo Betancourt,[3] and other members of that party, are Communists is one which has been carefully studied in this Department, and although our conclusions do not agree with Estrada's, there are undoubtedly reasons which support his case. As for the situation in Costa Rica, we do not regard Figueres as a Communist himself or that his well-known friendship with Betancourt is ground for the charge of Communist sympathies.

There is a long history of charges and defenses on both sides of this question; the available evidence has been reviewed from time to time by the Department and intelligence agencies of our Government, and in balance simply does not support the conclusion that Figueres is a Communist, or even ideologically favorable to Marxism. His program is basically nationalistic and partially socialist, but he and his party have consistently fought the Communists. The Costa Rican legislature, under leadership of the Figueres forces, outlawed the Communist Party in 1953, before Figueres was inaugurated as President. Figueres has also sought to persuade President Arbenz of Guatemala to alter his course of encouragement to the Communists in that country.

Many exiled members of the Venezuelan Accion Democratica Party are living in Costa Rica, and it is known that some of them return to Venezuela from time to time as underground agents, since their party has been outlawed since 1948; but any real alliance between the Accion Democratica and the Communist Parties as such has not been established, although there are cases of direct collaboration between individual party members.

It is my belief that, while distinctions between extreme leftist parties and the Communists are often fluid, we should exercise caution against judging leftist leaders such as Betancourt or Figueres as Communists. This identification is made by some Venezuelan officials, but we must recognize that from their viewpoint the Communist Party and the Accion Democratica Party are both enemies. Accion Democratica is not considered here to be an enemy of the United States.

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[1] Drafted by Raymond G. Leddy.

[2] Not found in Department of State files.

[3] Reference is to Rómulo Betancourt, exiled leader of the Acción Democrática party in Venezuela, who was granted political asylum by the Costa Rican Government early in 1952.

We are studying every means of solution to the Guatemalan problem, which you saw has considerable potential dangers. The support of the rest of the hemisphere is essential to our purposes, and we believe that Costa Rica may go along with further inter-American decisions. Although Costa Rica did not attend the Caracas Conference, Figueres sent his Ambassador in Washington to call on the Secretary after the conference to assure him of Costa Rica's support of the anti-Communist resolution. It is under this resolution that any specific steps affecting Guatemala would most probably be taken.

Your support at Caracas was invaluable. We need and count on it in facing our problems in Latin America.

Sincerely yours,

HENRY F. HOLLAND

811.05118/4–1954

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)

CONFIDENTIAL [WASHINGTON,] April 19, 1954.

Subject: United Fruit Negotiations with Government of Costa Rica.

Participants:
- Mr. Thomas Corcoran, Attorney for United Fruit Company
- Mr. Joseph Montgomery, Executive Vice President, United Fruit Co.
- Mr. Henry F. Holland

Today at the invitation of Mr. Thomas Corcoran I lunched with him and with Mr. Joseph Montgomery in a private room at the Carlton Hotel. They wanted to discuss negotiations beginning next week between the United Fruit Company and the Costa Rican Government regarding an amendment of the contract between the two. Mr. Corcoran asked that I report the substance of the conference to General Smith.

Mr. Corcoran stated that a number of the Company's Board of Directors were frightened by the prospects of oppressive moves by the Costa Rican Government and anxious to reach an agreement on amendments to the contract even if it required substantial concessions.

The United Fruit negotiating team is composed of its local manager in San José, Mr. Sam Baggett, its General Counsel, and Mr. Joseph

Montgomery, its Executive Vice President. Mr. Corcoran said that he feared that the first two reflected the views of the conciliatory group referred to above, whereas Mr. Montgomery and he, as one of the Company's lawyers, felt that the Company should not be quick to reach an agreement and should hold out for more favorable terms.

Mr. Corcoran said that within the next few days General Cutler would invite me to have dinner with him and with a Mr. Coolidge, the Chairman of the Company's Board of Directors. He urged, first, that I attempt to have Mr. Montgomery included at that dinner and, second, that I recommend there that the Company take its time in the Costa Rican negotiations and not be quick to reach a settlement.

I said that within the limits of courtesy, if an opportunity presented itself, I would be glad to suggest that Mr. Montgomery as one of the members of the negotiating team be included in the dinner.

As regards recommending a firm attitude at the negotiating table, I replied that it seemed to me unwise for a representative of the Government to be urging officers of any American company to take any particular attitude in their substantive negotiations with a foreign government. If we do, and if the results are unfavorable to the Company, we will obviously be held to blame.

As a lawyer I have at one time or another done some negotiating with representatives of Latin American governments, and I expressed the purely personal opinion to Mr. Montgomery that if you go into one of these negotiating sessions with the idea that you have to reach a quick solution you are liable to make a poor settlement. The Latin American government officials are usually prepared for a somewhat long session, and in my personal opinion the American businessman should be prepared for the same thing.

I said that I felt that the first responsibility of the Department of State was to attempt to serve the interests of our Government. However, I recognized that a very important secondary responsibility was to further the legitimate interests of American business abroad. I said that in the discharge of that important secondary responsibility we would stand ready to do anything that we properly can to help the Company in its negotiations. In this connection I said that if, after a reasonable period of negotiation, it was apparent that the two parties were making no headway, we would be glad to consider the advisability of asking Ambassador Hill on an informal basis to see if he couldn't suggest to the Costa Rican Government the desirability of a more flexible attitude on their part.

718.5 MSP/4-2754

Memorandum of Conversation, by John L. Ohmans of the Office of Middle American Affairs[1]

CONFIDENTIAL [WASHINGTON,] April 27, 1954.

Subject: Military Assistance Agreement with Costa Rica

Participants: Ambassador Antonio A. Facio of Costa Rica;
Mr. Henry F. Holland, Assistant Secretary, ARA;
Mr. John L. Ohmans, MID

Ambassador Facio was invited to call on Mr. Holland to receive a note from the Department in reply to the note of the Embassy of Costa Rica of April 16.[2] The note which Mr. Holland intended to deliver, but did not,[3] expressed the inability of the United States Government to enter into negotiations for a military assistance agreement with Costa Rica but indicated that the United States was prepared to sell arms to Costa Rica on a reimbursable basis.

Ambassador Facio's reaction to the proposed note and statement was immediate and vehement. Upon reading the note, he said this would fall like a bombshell in Costa Rica and that it would be very poorly received and misunderstood by the ordinary people. He took particular exception to the statement which said that a military defense assistance agreement could not properly be undertaken with Costa Rica. Mr. Ohmans attempted to explain to the Ambassador the meaning of that sentence and said that the Joint Chiefs of Staff had certain plans about the defense of the hemisphere and that the size and nature of the military forces in Costa Rica were not of the type which would fit into the plans of the American military planners.

The Ambassador said that he could understand that point of view but he felt that Costa Rica should not be discriminated against and that, if an agreement were negotiated with Nicaragua, the United States should also negotiate a similar agreement with Costa Rica to avoid this discrimination. He said that it was still very urgent that a public statement be made which would indicate the readiness of the Government of the United States to consider the request of the Government of Costa Rica to enter into negotiations with the United States. The Ambassador was relatively pleased about the references in the proposed note regarding the willingness of the United States to sell military equipment to Costa Rica under the terms of the Mutual

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[1] Approved and initialed by Assistant Secretary Holland.

[2] Not printed (718.5 MSP/4-1554).

[3] No copy of the undelivered note was found in Department of State files.

Defense Assistance Act,[4] and he asked that a note[5] be sent to his Government referring specifically to that point.

Mr. Holland admitted to Ambassador Facio that he saw the merits of the Ambassador's point of view, and he said that he would discuss once again with the officials in the Department of Defense the possibility of making a public statement which would indicate that the United States is disposed to consider the negotiation of a military assistance agreement with Costa Rica. At the same time, he and the Ambassador could understand clearly that the chances of an agreement eventually being reached would be very unlikely. Mr. Holland asked the Ambassador whether the reaction later in Costa Rica, when the United States had to tell that Government that it was not prepared to negotiate an agreement, would be as serious or more serious than the reaction which Ambassador Facio now felt would come about.

The Ambassador believed that the reaction at some time in the future would not be a serious one, especially after the current difficulties between Costa Rica and Nicaragua[6] had calmed down.

The meeting concluded with Mr. Holland's promise to Ambassador Facio that he would discuss with the military officials the possibility of a statement being made regarding the disposition of the United States to talk to Costa Rica about a military assistance agreement.[7]

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[4] Public Law 329, approved Oct. 6, 1949; for text, see 63 Stat. 715.

[5] On Apr. 30, 1954, Deputy Assistant Secretary Woodward handed Ambassador Facio a note of the same date which stated that the Department would be glad to consider a Costa Rican request for the purchase of arms under current legislation (718.5 MSP/4–1554).

[6] These difficulties stemmed in part from Nicaraguan President Anastasio Somoza's accusation against President Figueres and other high Costa Rican officials of complicity in an abortive attempt on President Somoza's life on Apr. 4, 1954. The resulting tension between the two countries, exacerbated by periodic border incidents and charges of hostile political activity, continued throughout 1954. For additional documentation, see pp. 847 ff. and 1378 ff.

[7] A memorandum of the conversation which took place when Mr. Woodward handed the note of Apr. 30 concerning arms purchases to Ambassador Facio, dated Apr. 30, 1954, reads in part as follows: "Mr. Woodward told the Ambassador that unfortunately the necessary clearances had not been obtained to allow the Ambassador to state before the press representatives upon leaving Mr. Woodward's office that the Department was also willing to examine the situation with regard to Costa Rica's desire to enter into a military treaty with the United States." (MID files, lot 57 D 15, "Costa Rica—Mutual Defense Assistance Program, 1954")

811.05118/6–754

Memorandum of Telephone Conversation, by the Officer in Charge of Central America and Panama Affairs (Leddy)

CONFIDENTIAL [WASHINGTON,] June 7, 1954.

Subject: United Fruit Company Loan of $1 million to Costa Rica

Participants: Mr. Sam Baggett, Vice President, United Fruit Company
MID—Mr. Leddy

Mr. Baggett telephoned from Boston and said that, since the new contract between UFCO and the Costa Rican Government was signed on Friday, June 4,[1] the company would now consider Figueres' request for a loan of $1 million, as an advance against future taxes, and possibly to be followed up by another loan of an equal amount later on. He wanted to know whether the Department had any objections.

I told Mr. Baggett that I felt sure that the Department's position would be the same now as it was when he raised this subject two weeks ago, namely, that the loan should be divorced from the contract, and immediate action in granting it need not be taken. He confirmed that divorcement had been made, and the contract signed without any reference to the loan; nevertheless, Figueres was ready to press for the loan and the company would not wish to antagonize him under present conditions when they have just achieved a substantial agreement which they hope will endure—Figueres could, for instance, easily stir up labor trouble on the west coast. I replied that, although the company's position could be clearly understood, our reasons for desiring no immediate action should be of equal importance to the company and had been outlined in a conversation between Mr. Holland and Mr. McClintock on Saturday morning, June 5, of which he, Mr. Baggett, was not yet apprised. I indicated that in the present circumstances in Central America we felt it desirable not to accede at once to petitions from Figueres, but to hold in abeyance all pending matters in order to get a clear idea first of where his Government will stand on the several highly important pending questions hinging around Guatemala. The action of UFCO's Executive Committee, today, could easily be one of postponement of final decision; and thereafter, it could surely be possible to postpone action. Mr. Baggett said he felt he understood and would be in Washington tomorrow to discuss the matter further.

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[1] A copy and translation of the amended contract were transmitted to the Department of State under cover of despatch 920, dated June 15, 1954, not printed (811.05118/6–1554).

718.5614/7–754

John L. Ohmans of the Office of Middle American Affairs to the Ambassador in Costa Rica (Hill)

SECRET OFFICIAL-INFORMAL [WASHINGTON,] July 7, 1954.

DEAR MR. AMBASSADOR: Developments over the Fourth of July weekend[1] regarding Costa Rica's arms purchases have made it important that you have a clear idea of the Department's line of thinking on this matter. You will recall from the earlier telegrams that the Department refrained from expediting the shipment of arms which Costa Rica purchased in order to be able to count on the support of the Costa Ricans at the then planned OAS consultative meeting on Guatemala.[2] You realize, of course, that the press release which the Costa Ricans made on this matter had unfortunate aspects, especially on Venezuela and Nicaragua. Now that the Costa Ricans have gone ahead and made this public announcement the United States is, as is too often the case, in the middle.

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[1] Apparent reference to the announcement by the Costa Rican Government on July 3 that a quantity of arms purchased in the United States would soon be flown to Costa Rica, and the subsequent reaction by opposition elements in Costa Rica and certain other Latin American governments. Pertinent documents are in files 718.00, 718.56, and 718.5614 for 1954.

We here had to explain to both Venezuela and Nicaragua that we had finally consented to the delivery of the arms in an effort to secure the goals that they are also seeking (the departure of Betancourt; the vote in the meeting of consultation; an affirmative action against Arbenz in Guatemala). Now Figueres' public statements make it look as if the shipment of arms to Costa Rica is action by the United States against Nicaragua and Venezuela.

In the event we are asked up here about the shipment we intend to say simply that this is a commercial transaction being directed through one phase of the Mutual Defense Assistance Act legislation and that Costa Rica is paying for the arms and is flying them to their country at their own expense.

There is some assurance from Ambassador Whelan in Managua and Ambassador Sevilla-Sacasa[3] up here that the Nicaraguans are unconcerned about the shipment, although naturally nettled about the political approach which Figueres is taking. Venezuela is a bit more difficult to understand. The plane flight over San Jose was extremely ill advised in our estimation and their representatives in Washington and in Caracas appear to take Figueres, Costa Rica, and Betancourt as their principal enemies of the moment.

With regard to Betancourt I can assure you that Venezuela is definitely out to make life miserable for him. Of course that is no secret, but in making life difficult for Betancourt they are also making life difficult for Figueres and for Costa Rica. This Henry Holland has already pointed out to Ambassador Facio, and for your background information, the Ambassador has agreed completely. He has told us that he will tell Foreign Minister Esquivel to get Betancourt to leave Costa Rica.

You have a far better knowledge of how effective Dr. Facio is with his Foreign Office. We are inclined to think that it isn't much. However, it would be useful up here to know whether Facio has really made any approach to his Foreign Office or to President Figueres about the disturbing effects about having Betancourt in San Jose. This I know you can handle in your own casual and effective way.

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[2] For documentation relating to the OAS consultative meeting, see pp. 1149 ff.

[3] Nicaraguan Ambassador to the United States.

Switching to another subject—referred to in the Department's telegram No. 5 to San Jose[4]—we recognize that the Justice Department action re UFCO may look bad from your point of view. On the other hand, this action proves to the world that the position of the United States regarding Guatemala was not dictated by the United Fruit Company and had nothing to do with that issue. From that angle it was extremely well timed. However, we had nothing to do with the Department of Justice action either to hurry it or to delay action at this moment. The Department of Justice was acting on its own volition, and except for the effort last year, we in the Department of State made no attempt to intervene in any way. There is also attached[5] for your information an editorial from today's *Washington Post* on the United Fruit Company.

I also have your letter[6] regarding Congressman Sikes' visit.[7] That trip is on once again and no doubt you will receive a revised schedule and probably be hearing from him. [Here follow further comments about Congressman Sikes.]

Sincerely yours,

JOHN L. OHMANS

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[4] The referenced telegram, dated July 5, 1954, containing information with respect to the Department of State's position on the anti-trust suit filed by the Department of Justice against the United Fruit Company on July 2, 1954, at New Orleans, is not printed (811.054/7–554). Regarding the suit, see the memorandum of discussion at the NSC meeting, June 17, 1954, and Mr. Sparks' memorandum, Dec. 3, 1954, pp. 224 and 262.

[5] No attachment was found with the source text.

[6] Not identified.

[7] Robert L. F. Sikes (D.–Fla.), member of the House Appropriations Committee. Representative Sikes visited Costa Rica during the latter part of July 1954 to examine field estimates in connection with the construction of the Inter-American Highway; pertinent documents are in file 033.1100 SI for 1954.

617.18/7–954

Memorandum of Telephone Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

CONFIDENTIAL [WASHINGTON,] July 9, 1954—9:10 a. m.

Subject: Costa Rican Situation

Participants: American Ambassador Robert C. Hill—San José, Costa Rica
Assistant Secretary Henry F. Holland

Ambassador Hill telephoned Mr. Holland and asked if he had received . . . cables[2]. . . . Mr. Holland had not.

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[1] Drafted by Mabel Karydakis of the Bureau of Inter-American Affairs.

[2] Not identified.

Ambassador Hill reported on developments up to seven o'clock last night. He said the information was from the two top men in the government. They had told him that Somoza was moving troops to the frontier; that they were going to make landings at El Coco and Sabena, the airport in the city; that the plan is to attack the presidential palace, garrison, the gas depots, railroads and cut communications to the north; that they also planned to try and suck troops from San José up to the border, leaving the area around San José open territory. Up until seven o'clock the Costa Ricans did not know the date of the proposed invasion. Ambassador Hill said Ambassador Whelan in Managua had suggested a meeting at the border between representatives of the two countries. President Somoza said he couldn't remain President unless President Figueres goes.

Ambassador Hill reported then on developments from seven o'clock to ten o'clock last night. He said President Figueres called him to the presidential residence last night and said that he had just received a cable from Managua stating that there would be an air attack on Costa Rica last night. (Ambassador Hill said it was now seven o'clock in the morning and nothing had happened. The lights were shut off at 2:00 a.m. There was a heavy garrison of troops around the palace. The airport was under guard, and they had put heavy trucks across the runways. There had been no public alarm or newspaper reports due to lack of power.

Ambassador Hill said the Costa Rican President had asked for considerable assistance. Ambassador Hill then put . . . on the telephone to outline his needs. (In reply to Mr. Holland's inquiry Ambassador Hill said he was speaking on the private telephone at the Embassy.) . . . said he wanted:

. . . .

Ambassador Hill said he had instructed Col. Welsch[3] at twelve o'clock last night to alert his men and cooperate fully in line with the military agreement with Costa Rica. He explained that the military mission there has an agreement which says what they are to do and that they are at the Ambassador's instructions under the circumstances. On Mr. Holland's further question Ambassador Hill said it meant that the military mission was to be cooperative but was to wait for further instructions from Washington.

Ambassador Hill said . . . .

Ambassador Hill said again that he had sent several very important cables to Mr. Holland . . . which would give full details on the information given in this phone call.

Ambassador Hill said that Somoza had made the statement that he would do what he could to harry Figueres. Hill said it wasn't being taken in that way in Costa Rica and they are alarmed. He said there are supposedly two areas they are going out for—San Carlos and Peña Blanca. He said that the No. 1 man there had been assured of all-out support of the country by Chamorro who is the opposition leader in the country to the north of them.

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[3] Harry A. Welsch, Chief of the U.S. Military Mission in Costa Rica.

In reply to Ambassador Hill's inquiry, Mr. Holland said he did not have any further instructions at the time but that he would look at the cables and would get in touch with the Ambassador later.

718.00/7-954

Memorandum of Telephone Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)

CONFIDENTIAL [WASHINGTON,] July 9, 1954—1:50 p. m.

Subject: Costa Rican Situation

Participants: President José Figueres, of Costa Rica
Foreign Minister Mario Esquivel, Costa Rica
Ambassador Robert Hill
Assistant Secretary of State Henry F. Holland

Ambassador Hill said that the President was standing beside him and was anxious to talk to Mr. Holland. The Foreign Minister was also there. They had discussed the matter about which Mr. Holland had telephoned earlier.

The President greeted Mr. Holland and said he was pleased over the cooperation he was receiving from Ambassador Hill and from us. . . .

Mr. Holland then asked the President if he had any news concerning the shooting in Las Cruces. The President said there was nothing there. Mr. Holland said that he might be mistaken but we want to avoid any possibility of violence and we want to give that country an opportunity to work out a practical solution of this problem, which is of interest to all of us. The President said they were counting on our collaboration here in Washington and that of Ambassador Hill in Costa Rica. The President went on to say that Ambassador Hill had been more than cooperative, he had gone out of his way to be helpful. . . .

The President concluded by saying that he was looking forward to Mr. Holland's visit to Costa Rica so that they could have a long conversation. He hoped that it would be soon and that Mr. Holland would not make his stay too short.

The Foreign Minister came on and said he wanted to thank Mr. Holland for the cooperation he was giving them on the matter. He said that they had not been able to confirm some of the information of what was happening at the border, as it had been raining rather hard and they had not been able to reach anyone. They did know that there were 250 men in Rivas near the frontier, and he thought they were getting orders from the North, and that they were following the same procedure as Somoza did when he trespassed the frontier and entered Costa Rica in 1948.[1] The Department might be interested in looking up the report[2] on the invasion of 1948. The Foreign Minister said he had talked with Ambassador Facio suggesting that the matter be taken up with the OAS. But they would want to do the necessary consulting before taking this step. He mentioned in this connection the Governments of El Salvador, Uruguay, and the U.S.A. Mr. Holland said that he hoped that, working on the basis of the note which the Foreign Minister had sent to Nicaragua, a solution of the problem could be worked out. Mr. Holland said he had talked with the Nicaraguan Ambassador today who gave the impression that he was pleased regarding the various aspects of that note and indicated that with the collaboration of friends we could, on the basis of the note, work out a solution of this problem. Mr. Holland had told him that he could count on our help.

Mr. Holland told the Foreign Minister that he was sending a cable to Ambassador Hill today expressing some points of view regarding the contents of the note and asked that the Foreign Minister give his opinions on the observations made.

Mr. Holland then told Ambassador Hill the gist of his conversation with the Foreign Minister and said that he was sending him a telegram today to take up with the Foreign Minister.

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[1] For documentation on this subject, see *Foreign Relations*, 1948, vol. IX, pp. 516 ff.

[2] Reference may be to the final report of Committee of Information appointed by the COAS to investigate the situation in Costa Rica; for information concerning that report, see Department of State *Bulletin*, June 5, 1949, pp. 707 ff.

718.00/7–954: Circular telegram

The Secretary of State to the Embassy in Guatemala[1]

CONFIDENTIAL PRIORITY WASHINGTON, July 9, 1954—8:46 p.m.

22. In view repeated reports invasion of Costa Rica imminent from Nicaragua, to overthrow Figueres Government, following positive steps were taken today materially to lessen this danger:

(1) In talks with Ambassadors of Costa Rica and Nicaragua[2] here, Holland emphasized sharp US concern any political upheaval at this time following so closely events in Guatemala.

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[1] Drafted by Mr. Ohmans and Raymond G. Leddy. Sent also to San Salvador, Tegucigalpa, Managua, San José, Panama, and Caracas.

[2] Guillermo Sevilla Sacasa.

(2) Holland also informed Nicaraguan Ambassador here US confident no invasion of Costa Rica would be allowed proceed from his country and instructed our Ambassador Managua inform Somoza in similar terms.

(3) In response Sevilla Sacasa's memo[3] citing 15 Nicaraguan exiles in Costa Rica as danger to Nicaragua, Holland later urged Costa Rican Foreign Minister and Ambassador Facio exceed substantially previous offer expel three Nicaraguan exiles, to which they assented; meanwhile, Embassy San José has received Betancourt visa application which now being studied for possible recommendation as visitor.

(4) Instructed Embassy Caracas tell Foreign Minister[4] US opposed to any violence in Costa Rica and would if requested comply OAS obligations. Possibly as consequence, Ambassador Gonzalez, to whom our previous efforts to procure departure of Betancourt from Costa Rica have been explained, was summoned to Caracas.

(5) Assured Costa Rica initial shipment 14 tons on $491,000 amount arms purchased from US two months ago (but held up during Guatemalan crisis) will be delivered by USAF San José July 14 via Panama. This sale and delivery had previously been explained to Nicaragua and Venezuela and apparently accepted; Figueres assured Holland today this shipment would not be publicized, but Costa Rican papers have previously exploited forthcoming delivery as evidence US support for Figueres.

Although reports of invasion plan not yet substantiated, Department regards number of circumstantial developments as indicating definite scheme afoot, headed by Costa Rican exiles but with Venezuela and Nicaragua implicated. Firm US policy in this situation is to ameliorate political tensions creating excuse for movement against Figueres, and reestablish stability in area especially in relations Nicaragua–Costa Rica. We also concerned adverse world reaction from overthrow legitimately elected liberal democratic Costa Rican Government, for which US would be censured because of our predominant position in area and alleged role in recent change of government in Guatemala.

You may use foregoing in your discretion. Important and useful to Department you evaluate realistically and report factually any developments bearing on problem.

DULLES

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[3] Not identified.
[4] Aureliano Otáñez.

617.18/7–954: Telegram

The Ambassador in Nicaragua (Whelan) to the Department of State

SECRET PRIORITY MANAGUA, July 9, 1954—5 p.m.

10. Re today's phone call Holland and Burrows.[1]

President Somoza reiterated today no training, no plotting, no bases in Nicaragua against Figueres. Information my telegram 9 July 6 still correct.[2] He added, however, Figueres still plotting against him and other countries and was crying wolf to try to get sympathy and arms from US. He exhibited report that Costa Ricans had left for Miami Tuesday to buy three P–47 planes and arms and that a Jaime Solera had check for $460,000 to pay cash. He added "I admit I am getting blankety-blank sick and tired Figueres' constant plotting. He is slapping the Department and me around, but I won't do anything without telling you first and then I will do it so fast Figueres won't even have time to put his pants on."

Other diplomatic officers tell me there is general hatred Figueres, his Caribbean Legion backers and his long record mixing in others affairs. They openly predict trouble will eventually arise from many sources unless he cleans house and shows by action instead of words he desires to cooperate other states this area. In fact many tell me that Haiti, Dominican Republic, Cuba, Venezuela and Panama are bitterly and actively anti-Figueres and growing resentful what they regard as our apparently staunch support of him. They must be counting on support other countries, the Argentine Ambassador having been quoted as saying he hoped Nicaragua would break relations Costa Rica. The Peruvian Minister told me his country would break relations at slightest excuse. On other hand many admit they do not want Somoza to emerge as strong man of Central America and I do not believe they would give Somoza the leadership in anti-Figueres move. For example, Salvadoran Ambassador told me his country was sure Somoza would come to Salvador's aid and that his country would reciprocate but not to extent making him Central America's chieftain. He said "The thing we are afraid of is Somoza may build ring around Salvador". Moreover, my colleagues know Somoza strongly pro US and unwilling embarrass US in UN and OAS and they do not consider him absolutely safe.

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[1] Assistant Secretary Holland telephoned Ambassador Whelan in Nicaragua at least three times on July 9 expressing concern over the growing tension along the Costa Rican-Nicaraguan border; memoranda of these conversations, dated July 9, are contained in file 617.18.

[2] The referenced telegram reported that although President Somoza was dissatisfied with Costa Rica's reply to his note of May 17, 1954, detailing charges against Costa Rica with respect to its alleged complicity in the assassination attempt of Apr. 4, he was neither planning to break diplomatic relations with Costa Rica nor plotting against President Figueres (617.18/7–654).

President's son Tachito, the Chief of Staff, hinted . . . that Venezuela and Cuba had a tie-up with proposed bomber flight across Costa Rica, the plane recently dropping leaflets being trial run. He also hinted enough anti-Figueres countries to block action by OAS.

From this point of view it does not add up to Somoza starting action though his hatred Figueres and anger at Costa Rica's whitewash note might easily lead him to lend at least moral support if other nations acted first.[3]

WHELAN

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[3] For additional documentation relating to the Costa Rican-Nicaraguan exchange of notes concerning the assassination attempt, see pp. 1382 ff.

718.00/7-1254: Telegram

The Acting Secretary of State to the Embassy in Costa Rica [1]

CONFIDENTIAL PRIORITY WASHINGTON, July 13, 1954—7:57 p.m.

18. Oreamuno's suggestion Ambassador act as intermediary between him and Figueres Embtel 22[2] appears inappropriate since conversations he proposes would concern purely internal Costa Rican matters such as appointment Colonel Ventura as Vice Minister Public Security. This appointment probably now intended secure for anti-Figueristas control Guardia Civil and expected arms delivery and could hardly justify our interest as necessary to assure free elections in 1958 four years hence. Department's reaction that later trip by Oreamuno and Ventura to patch up differences with neighboring countries would not be as effective as trip by known followers Figueres whom they consider source trouble.

Department's efforts reduce tensions in order stabilize area and eliminate possibility armed movement against present legally elected Costa Rican Government Depcirtel 22[3] delineate our role in resolving present crisis. Oreamuno's direct contact with Figueres should therefore be his own decision without Embassy involvement. Suggest your discretion you inform Figueres of indirect approach already made in order obviate any subsequent misconception.

SMITH

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[1] Drafted by Raymond G. Leddy; signed for the Acting Secretary by Assistant Secretary Holland.

[2] Not printed (718.00/7-1254).

[3] Dated July 9, 1954, p. 850.

617.18/7–2954

Memorandum of Telephone Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

CONFIDENTIAL [WASHINGTON,] July 29, 1954—7:55 p. m.

Subject: Nicaraguan-Costa Rican Relations

Participants: Ambassador Robert C. Hill—San José, Costa Rica
Assistant Secretarty Henry F. Holland

Mr. Holland telephoned and told Ambassador Hill that after talking with him earlier he called Ambassador Whelan and asked him to go back and see President Somoza and tell him that we would do our best to get something accomplished on the three requirements[2] that the President had established but that Mr. Holland would like assurance that there would be peace and tranquillity during period of time we would be working on it and asked Ambassador Whelan to determine whether we could count on it. Ambassador Whelan said that he would.

Ambassador Whelan told Mr. Holland that the President had told him that he was conducting military maneuvers of about 1000 troops at the following places: Rivas, Pena Blanca, Cardenas and Las Bohenes. Mr. Holland told him that any such maneuvers as that would make it impossible for him to accomplish anything and that if the troops were sent to those places Mr. Holland would feel compelled to drop his efforts to mediate because he would feel that the situation was hopeless. He asked Whelan to speak to the President and call him back. Amb. Whelan had called back and said the President has reiterated that if the three requests were met he would immediately invite a meeting of the Foreign Ministers.

As regards the troops Amb. Whelan said that they were already at those places and therefore he could not call them off, but Somoza did invite him to send the head of our MAAG Mission and our Military Attaché to inspect those troops to be certain that they were doing nothing but maneuvering. Amb. Whelan is sending the officers, both colonels, immediately to go and inspect the troops and be certain that they are doing nothing but maneuvering. So Mr. Holland thinks that Amb. Hill can properly report to the Costa Rican Government that, though they get reports of troops, our officers are with the troops at the request of the Nicaraguan President to make certain they are doing nothing but maneuvering. Amb. Hill said they have already received report of the troops and report is that they have gone down with tanks as well as men. He said that from Nicaragua there is an INS article in *Prensa Libre* headlining, "If Figueres wants war, he can have it," and naturally they are being bombarded as to what is going on. Amb. Hill said he assumes that the man north of them is playing up the war of nerves to the nth degree until the requirements are satisfied. Mr. Holland asked Amb. Hill what he thought the reaction would be if the reply comes through us. Mr. Holland had told Amb. Whelan that if he ran into difficulty in obtaining the note he was going to suggest as an alternative that it come through Department. He said he didn't know what the reaction would be.

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[1] Drafted by Mabel Karydakis of the Bureau of Inter-American Affairs.

[2] In telegram 21, from Nicaragua, dated July 28, 1954, the Embassy reported that President Somoza had set the three following conditions which the Costa Rican Government would have to satisfy before he would agree to a meeting between their respective foreign ministers for the purpose of reducing tension between the two countries: (1) an indication in writing that Rómulo Betancourt and others allegedly involved in the assassination plot had been deported from Costa Rica, (2) a full investigation of all officials suspected of involvement, and (3) the return of three persons taken the previous week on Nicaraguan soil (617.18/7–2854).

Amb. Hill said Foreign Minister Esquivel has just talked with him and said he was working on the note and will have it in Amb. Facio's hands this evening. Mr. Holland said he had talked with Amb. Facio who had a conference call set for 8 p.m. Mr. Holland said they were doing their part here.

Amb. Hill asked for suggestions as to what he might do. Mr. Holland said he would have no objection to Amb. Hill, and Amb. Hill only, saying to press that with respect to any reported concentration of troops on Nicaraguan side we have been advised that they are routine maneuvers and that the Government of Nicaragua has invited the head of our MAAG Mission and our Military Attaché to inspect the troops in the course of their maneuvers and that the invitation has been accepted. Mr. Holland said Amb. Hill should use the authority he has given him only in the event that Amb. Hill thinks it is necessary to allay real unrest there. Mr. Holland repeated that Amb. Hill is to make statement that he is advised by the Department that the Government of Nicaragua has advised the Department that this movement of troops is purely military maneuvers and that head of our MAAG Mission and our Military Attaché have been invited to inspect the maneuvers and have accepted the invitation.

Amb. Hill said he would keep us posted.

718.5/8–454

The Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of the Army (Stevens)[1]

TOP SECRET [WASHINGTON,] August 4, 1954.

MY DEAR MR. SECRETARY: Reference is made to the conversation between Deputy Assistant Secretary of State Robert F. Woodward and Brigadier General Russell L. Vittrup, Chief, Operations Division, OAC of G–3, on July 31, 1954.[2] General Vittrup wished to insure a clear, concise understanding for planning purposes, on action to be taken by United States armed forces in the event that Costa Rica requests assistance under Article III of the Rio Treaty; he stated that it is essential that precise instruction be obtained on what action the Department of State wishes the military to undertake.

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[1] Drafted by Raymond G. Leddy; cleared with the Office of Regional American Affairs.

It is contemplated by the Department of State that before any employment of United States armed forces in Costa Rica, in response to a request of the Government of Costa Rica under the obligations of the Rio Treaty, efforts would have been exhausted to arrive at a solution to the conflict without resort to the use of our forces. However, in the event of failure of these efforts, final reliance on United States armed forces to defend Costa Rica would be made on authorization of the President of the United States. It is understood that no such action of United States armed forces would occur until such authorization.

The purpose of alerting the Department of Defense on the possibility that the Rio Treaty might be invoked by Costa Rica was to permit time for advance planning on the nature of military action which would be necessary to defend Costa Rica against armed attack by Nicaragua. The nature and extent of military action suitable for defending Costa Rica from such attack is a military decision on which the Department of State is not qualified to pass. The Department of State nevertheless appreciates that problems may arise on which the unit commander might wish a broad definition of policy for his guidance, which is offered as follows:

1. The minimum forces numerically sufficient to perform the mission should be assigned;
2. Extraordinary care should be exercised to limit objectives to hostile military units and to avoid causing death or injury to Costa Rican or Nicaraguan civilians;
3. The border of Nicaragua should be the point of maximum advance, wherever it can be clearly defined, and in other cases no advance should be made into doubtful territory except as a military necessity to repel or prevent armed attack on Costa Rican soil.

The effective cooperation of the Department of the Army, which has enabled the Department of State to determine its policy in this problem, is deeply appreciated.

Sincerely yours,

HENRY F. HOLLAND

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[2] A memorandum of the referenced conversation, dated July 31, 1954, is in file 718.5/7–3154.

617.18/8-654

The Ambassador in Costa Rica (Hill) to the Department of State

SECRET San José, August 6, 1954.

No. 91

Subject: Warning to President Figueres on Foreign Adventures

It is quite likely that the Department or the Embassy will receive some sort of note of thanks from the Costa Rican government if the present difficulties with Nicaragua are satisfactorily settled. It is the Embassy's opinion that in answering such a note a polite warning be given President Figueres in event his scheming mind is thinking up any additional foreign adventures.

It does not seem too far out of line to point out to Figueres that the United States unhesitatingly sided with Costa Rica—a model democracy with no standing army—when it appeared there was danger of undue pressure being exerted from outside. Thanks to the cooperation of Costa Rica and Nicaragua, an amicable settlement was reached.

It could be pointed out, however, that the United States is fully aware of the personal animosity that exists between Presidents Figueres and Somoza and that such feelings are hard to hide. Nevertheless, it would be hoped that President Figueres would contribute to hemispheric peace by restricting his verbal and written attacks and maintaining a close watch on Nicaraguan exiles to prevent a recurrence of the April assassination plot against Somoza.

A note of this content, diplomatically worded, would be valuable as a record of mild reproof toward the Costa Rican government for having permitted—to put it mildly—the preparation of the plot against Somoza. Furthermore, it might act as a deterrent against further adventures of this type by don Pepe. In event another plot were hatched on Costa Rican soil the United States, if it felt that Figueres merited no further support, need only make the note public to indicate that Figueres had been warned in advance to refrain from meddling in the affairs of other countries.

The Embassy feels that the presentation of a note of this nature to the Costa Rican government is advisable and if the Department concurs, preparation should be undertaken by the Department. With Venezuela in mind, perhaps the admonition might be made more general, but it is believed such a note would lose its force vis-à-vis the Costa Rican-Nicaraguan situation.

In event no note of thanks is received we should send a warning to Figueres.[1]

For the Ambassador:
C. ALLAN STEWART
First Secretary

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[1] No indication of the action taken on the Embassy's recommendation was found in Department of State files.

MID files, lot 57 D 15, "Costa Rica—Political 1954"

Memorandum by the Officer in Charge of Central America and Panama Affairs (Leddy) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

SECRET [WASHINGTON,] November 18, 1954.

Subject: Imminent Attempt to Overthrow Figueres Government

1. Current information indicates that the plan to overthrow Figueres, formulated but aborted last summer and then postponed until mid-November, is now about to be put into effect.

(a) The participants are the same: the *Costa Rican opposition* to Figueres headed by ex-Presidents Calderon Guardia and Picado,[2] with covert assistance or tacit consent of present "outs" Echandi, Ulate, and perhaps Castro Cervantes—all spearheaded by activist Roberto Tinoco, aging revolutionary; *Somoza of Nicaragua*, who has furnished safe haven for training of Costa Rican irregulars and very likely arms; *Perez Jimenez and Estrada of Venezuela*, who have supplied funds and very probably arms, via Nicaragua and Panama. The assistance of *Trujillo of the Dominican Republic* is not visible, but would be consistent. The help of *Castillo Armas of Guatemala* is doubtful, but participation by individual members of his "Liberation Army" still sitting out at Chiquimula, is not unlikely—we have positive evidence that the unanimous impression existed among these stalwarts last June that after they overthrew Arbenz they would knock off Figueres.

(b) The form of action is now different. Instead of "invasion" from abroad, which ran athwart of U.S. opposition in July–August, the affair will be purely domestic. The infiltration of irregular forces back into Costa Rica, after training northward, is reported imminent. If proof of the nature of the present operation were needed, it can be found in the glee of Foreign Minister Otañez of Venezuela over the prospective fall of Figueres as "result of internal conditions . . . accomplished by Costa Ricans" (Embtel Caracas 146 [*147*], November 17).[3]

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[1] Addressed also to Deputy Assistant Secretary Sparks, Ambassador-designate Woodward, and Director of the Office of Middle American Affairs Newbegin.

[2] Teodoro Picado Michalski, President of Costa Rica, 1944–1948.

[3] Not printed (617.18/11–1754).

(c) This "internal" action can well be considered by the plotters as obviating hostile reaction from the Department of State, and any resulting assistance to Figueres under inter-American treaties; it could also insulate the movement against OAS action, at least for the time needed to do the deed, which may be 24 to 48 hours. The lesson was learned last summer that the overthrow of Figueres could not be accomplished by a military operation from outside the country, in which governments of one or more neighboring countries would necessarily be accused of intervention, and the revised plan would subtract this overt feature of foreign military action.

2. The imminence of putting this plan into action, possibly on the week end November 20–21, would be suggested by the following factors:

(a) Assistant Secretary Holland will be either in flight to Rio or occupied at Rio[4] during these days, eliminating him from the decisive role he played last July.

(b) The American Government is represented at San José by Chargé Stewart and Ambassador Woodward will not arrive until the latter part of the coming week, the effectiveness of U.S. on-the-spot representation will be accordingly reduced during this period.

. . . .

(d) The beginning of the dry season right now in Costa Rica makes both land and aerial operations feasible.

(e) Since the Figueres regime is weak militarily and is devoid of air defense, the sooner action is taken the better, before any additional military equipment (particularly airplanes currently under consideration) is arranged.

. . . .

3. Prospectus of success of the movement is fairly high.

(a) Division, tensions and confusion within the Figueres regime are considerable. Cohesive and determined action, on a sufficient scale, might be hard to muster over a week end. Figueres' personal custom of spending the week end at La Lucha is a favorable factor for the plotters, who might even endeavor to assassinate Figueres on the road or at the finca itself, which is very lightly guarded.

(b) The real key to any visible struggle would be in air power. The revolutionaries can probably count on availability of two or more war planes of the P–47 type which were sufficient to bomb and strafe the resistance out of Guatemala's armed forces. Adventurer pilots, such as Jerry DeLarm, U.S. citizen, are still in the area and will fight anybody for pay. Without a single plane to put in the air against them, the Figueres forces could probably not resist.

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[4] Assistant Secretary Holland was scheduled to attend the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly referred to as the Rio Economic Conference), which convened at Quitandinha, Brazil, Nov. 22, 1954; for documentation on the meeting, see pp. 313 ff.

(c) The organization of opposition to Figueres in Costa Rica is broad, determined and well financed. It represents the power of the conservative class of the country which views with horror, as a threat to its own existence, three and a half years more of Figueres in power. As land holders, this group can afford facilities in the interior to irregular forces.

4. The United States position should be determined in advance on the following recommended basis:

(a) There is no basis for United States action unless inter-American obligations are invoked in the face of armed intervention by one state against another. In the present case, however, this possibility will probably not arise, as steps have been taken to avoid it.

(b) Although it is our policy objective to foster democratic representative government in Latin America and to oppose political change by force, we cannot adopt a position of policing this continent against internal disturbances and changes of government.

(c) The above interest in our policy objectives also implies that we maintain cordial and friendly relations with a liberal democratic government, such as that of Figueres, because of the effect on relations with other such governments, such as Uruguay, Bolivia, Chile, and Ecuador. However, these objectives should not require that we anticipate a crisis or volunteer our assistance unilaterally.

(d) Costa Rica has not asked for U.S. assistance and has not made any move in the inter-American system. Until Costa Rica does so, there is no justification for the United States to move on its own, with the resulting harmful effects on relations with the governments desirous to see Figueres overthrown, such as Venezuela, Colombia, Dominican Republic, Panama, Nicaragua, Honduras, and Guatemala.

(e) Effective action at this time by the United States, to deter the "internal" revolution, could only be in the form of force, such as a sweep over Costa Rica by a half dozen U.S. fighter planes and their landing at San José airport. In the present shortness of time, arrangements for this purpose would have to be effected on Friday, November 19. It would not be unwise to make inquiries as to the availability of this or similar military show of force, should a Costa Rican request come over the week end.

718.5/11–2054

The Under Secretary of State (Hoover) to the Secretary of Defense (Wilson)[1]

TOP SECRET [WASHINGTON,] November 20, 1954

MY DEAR MR. SECRETARY: On August 4, 1954, Assistant Secretary Henry F. Holland addressed a letter[2] to the Secretary of the Army requesting that advance planning be carried out concerning the nature of military action which might be necessary to assist in the defense of Costa Rica in the event that the Government of Costa Rica should request such assistance under Article 3 of the Rio Treaty. A copy of the letter of August 4 is enclosed[3] for your convenient reference.

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[1] Drafted by Ambassador-designate Woodward.

[2] *Ante*, p. 855.

The Department of State has received continuing reports of the possibility that Costa Rica might be subjected to such an attack. Although the probability of such an attack is very difficult to estimate and may not be great, it does appear probable that if such an attack should occur it would involve the use of aircraft, since the potential attackers are believed to have been impressed with the effective use of aircraft in the recent revolution in Guatemala. Since the Government of Costa Rica possesses no military aircraft, such an attack would probably be clearly identifiable as coming from outside the territory of Costa Rica.

As stated in the letter of August 4, United States armed forces would be used to defend Costa Rica only upon authorization of the President of the United States after the evaluation of a direct attack. I believe the present circumstances are such that it would be advisable to have a small number of intercepter aircraft, possibly six airplanes, based in as close proximity to Costa Rica as practicable. If these aircraft were in the Canal Zone, they would be less than an hour away from Costa Rica. The movement of these aircraft to the Canal Zone might, in itself, if it were permitted to be known discreetly to the potential attackers, have the effect of deterring an attack. As a part of, or supplement to, the existing planning operation, the Department of State would appreciate this precautionary action. The Department of State would arrange for the discreet mention of this action to persons who are believed to be in touch with the potential attackers.

Sincerely yours,

HERBERT HOOVER, JR.

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[3] No enclosure was found attached to the source text.

MID files, lot 57 D 15, "Costa Rica—Political 1954"

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Sparks) to the Secretary of State[1]

SECRET

[WASHINGTON,] November 22, 1954.

Subject: Possible Attempt to Overthrow Figueres Government in Costa Rica

Discussion:

Reports from our missions and CIA in the first half of November indicated preparations of an "internal" uprising to overthrow Figueres, by his foreign enemies, (principally Somoza of Nicaragua and Perez Jimenez of Venezuela) in alliance with domestic opposition, initiated over the week end of November 20, with air support which Costa Rica cannot combat. A summary of this evidence is attached (Tab A).[2]

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[1] Drafted by Raymond G. Leddy.

The plan avoided any overt invasion or foreign intervention, which was threatened last July, when we acted to preserve peace in Central America by warning the interested governments we would fulfill our obligations under the Rio Treaty if Costa Rica were attacked, and sent five United States Air Force C–47 transports from Panama on a tour of the five countries. Nevertheless, there is a possibility of international conflict, as shown by President Figueres' statement to our Chargé that if an uprising occurs he will immediately declare war on Nicaragua in order to force OAS action.

The Under Secretary and Mr. Holland decided on November 19: (1) to ask Defense to make six United States interceptor planes available in the area, should we be called upon to fulfill our treaty obligation; (2) . . . and (3) to inform the Costa Rican Government that, although concrete evidence of any attack was not seen, the United States would honor its commitments under the OAS should such evidence develop. Action was accordingly taken: (1) Defense agreed to send six interceptors to Panama; (2) . . . and (3) instruction was sent to Embassy San José by the Department. Later information shows plan postponed but still pending.

When AP despatch from Panama on November 20 reported "United States sending interceptors under Rio Treaty to protect Costa Rica from attack", which was apparently learned from unauthorized sources, AP in Washington expanded on the report, mentioning Nicaragua specifically as the offending country but also referring to support of plot by elements in Venezuela, Dominican Republic, Guatemala, and Honduras.

Ambassador Sevilla Sacasa called today to request clarification. We ascribed the plane movement as routine and have so stated to press.

Recommendation:

That we continue to play down the incident publicly.[3]

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[2] No attachment was found with the source text.

[3] The source text contains no indication of the action taken on this recommendation.

718.5/12-1054

Memorandum by the Joint Chiefs of Staff to the Secretary of Defense (Wilson)[1]

TOP SECRET

WASHINGTON, 26 November 1954

Subject: Military Support of Inter-American Treaty of Reciprocal Assistance.

1. Reference is made to your memorandum, dated 23 November 1954,[2] subject as above, and the letters from the Under Secretary of State and Assistant Secretary of State attached thereto,[3] wherein you requested the views of the Joint Chiefs of Staff, on an urgent basis, regarding the deployment of U.S. aircraft to a location in close proximity to Costa Rica.

2. Specific plans are in existence in Headquarters, CINCARIB for the expeditious deployment of U.S. military forces to Costa Rica in support of U.S. obligations under Article III of the Inter-American Treaty of Reciprocal Assistance (Rio Treaty). These plans have been reviewed by the Department of the Army but not by the Joint Chiefs of Staff. U.S. forces are capable of rapid deployment in the event the President should authorize U.S. armed assistance in Costa Rica. The Troop Basis of the Caribbean Command is under study by the Department of the Army with a view to improving the flexibility of U.S. armed forces to meet such requirements in CINCARIB's area of responsibility.

3. With regard to the psychological aspects of deterring aggression the Joints Chiefs of Staff are of the opinion that the movement of 5 F–84 Thunderjets of the U.S. Air Force scheduled to arrive in Guatemala on 28 November 1954 for demonstration purposes will depict adequately the U.S. capability for rapidly moving its armed forces to any area in Central America. Thus, if this capability should be properly exploited through publicity and other means the Joint Chiefs of Staff believe that the desired deterrent effect could be achieved without the deployment at this time of additional aircraft to the Canal Zone.

For the Joints Chiefs of Staff:
ARTHUR RADFORD
Chairman
Joint Chiefs of Staff

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[1] Transmitted to the Department of State under cover of a letter from Secretary Wilson to Secretary Dulles, dated Dec. 10, 1954. In the letter, Secretary Wilson stated that he had "reviewed the expressions contained in the attached memorandum from the Joint Chiefs of Staff and concur in their views."

[2] No copy of the referenced memorandum was found in Department of State files. JCS files contain a copy to which is attached an undated copy of a letter from Under Secretary Hoover to Secretary of Defense Wilson, not printed.

[3] Reference is to the letters from Assistant Secretary Holland to Secretary of the Army Stevens, Aug. 4, 1954, and Under Secretary Hoover to Secretary of Defense Wilson, Nov. 20, 1954, pp. 855 and 860.

617.18/11–2654

Memorandum of Conversation, by the Director of the Office of Middle American Affairs (Newbegin)

CONFIDENTIAL [WASHINGTON,] November 26, 1954.

Subject: Imminence of Invasion of Costa Rica

Participants: Ambassador Antonio Facio of Costa Rica
AR—Mr. Jamison
MID—Mr. Newbegin

In connection with Ambassador Facio's call on Mr. Sparks this morning when he reviewed the Costa Rican situation and suggested the dispatch of two U.S. destroyers, he called this afternoon at my request. When he arrived it was suggested to him that if the Costa Rican Government believed the evidence in its possession showed an imminent threat of invasion it would be desirable to resort to the procedures of the OAS for inter-American peace rather than to request unilateral U.S. action. The Ambassador made a note to this effect and stated that he would inform his Government of his conversation immediately. He gave the impression of not being particularly pleased with the suggestion and that he would have preferred some direct U.S. action. He made a comment to the effect that he doubted that he would be in Washington very long; he was not the type of person who enjoyed having to go through these various maneuvers but favored more direct action. He emphasized again that his one interest was to avoid bloodshed and to maintain peace among Costa Ricans.

Mr. Jamison stated that Costa Rica had referred problems to the OAS before and he believed with considerable success. The Ambassador agreed but replied that the OAS had taken its action only after some 3,000 people had been killed. This was an apparent confusion of the issue since it was clear that the Ambassador was referring to the revolution of 1948 which preceded OAS action at that time. As regarded a statement by the Ambassador that it took too long for the OAS to take action, Mr. Newbegin stated that there was no need for this; that it was of course a matter for decision by the Costa Rican Government, but if the matter were referred to the OAS this could presumably be done as soon as the Costa Rican Government cared to do so.

Mr. Jamison inquired as to whether the Costa Rican Government had informed the Nicaraguan Government of developments. The Ambassador replied that he believed it had although he could not so state categorically.

718.00/12–654

Memorandum by the Special Assistant to the Secretary for Intelligence (Armstrong) to the Under Secretary of State (Hoover)

CONFIDENTIAL [WASHINGTON,] December 6, 1954.

Subject: Intelligence Note: Mounting Tensions Threaten Figueres Regime

Recent reports of conspiracies to overthrow the government of constitutionally elected President Jose Figueres Ferrer of Costa Rica[1] underscore the deterioration of Figueres' position at home and in neighboring countries during the year since his inauguration. His socialistic theories and international policies not only have alienated influential sectors of national opinion, but have intensified old enmities with powerful foreign adversaries, notably long-time dictator Somoza of Nicaragua. Threats of invasion involving Costa Rican exiles, coupled with mounting criticism from "loyal" opposition elements, may in time cause Figueres to feel compelled to break temporarily with Costa Rica's tradition of respect for constitutional processes. Figueres will brand any invasion as foreign-based and invoke the Rio Treaty.

Foremost among Figueres' "loyal" critics is his former friend, ex-President Ulate, who resents the rejection by the pro-administration majority in the legislature of a constitutional amendment which would have paved the way for Ulate to be a presidential candidate in 1958. A powerful newspaper publisher, Ulate has consistently denied involvement in conspiratorial activities. In the face of mounting internal and external pressures, however, he might consider it his duty to assume a leading role in an anti-Figueres movement.

Articulate Costa Ricans have criticized Figueres for making a fetish of opposing Caribbean dictatorships, for boycotting the Tenth Inter-American Conference at Caracas because of the alleged undemocratic character of the Venezuelan Government, and the government's alleged connivance in a plot last April to assassinate Somoza.

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[1] A memorandum for Assistant Secretary Holland, dated Dec. 23, 1954, by Robert Amory, Jr., Deputy Director for Intelligence, Central Intelligence Agency, reads in part as follows: "The rumors [of an impending attempt to oust Costa Rican President Figueres] have been difficult to evaluate since their circulation appears a key weapon in the 'war of nerves' which the Nicaraguan and Venezuelan governments have been waging against Figueres since last July. In addition, many of them originate with the Costa Rican government itself, which may be exaggerating them in an attempt to impress the other American republics, especially the United States, with the seriousness of the situation in an effort to enlist their support." (718.00/12–2354)

Militant opposition to dictatorships has left Figueres alone before a formidable array of opponents. Closely linked with Somoza in various alleged anti-Figueres plots are Jimenez of Venezuela and Trujillo of the Dominican Republic. His other enemies include Carias, ex-dictator and presidential contender in Honduras, Castillo Armas of Guatemala, Remon of Panama, and Batista of Cuba.

A similar memorandum has been sent to the Secretary.

W. PARK ARMSTRONG, JR.

CUBA

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND CUBA[1]

Editorial Note

On January 29, 1952, representatives of the United States and Cuba initiated negotiations for a bilateral military assistance agreement at Habana. Documents pertaining to the negotiations are in Department of State file 737.5 MSP for 1952. The Agreement was signed on March 7, 1952, and entered into force on the same date; for text, see *United States Treaties and Other International Agreements* (UST), volume 3, page 2901, or Department of State Treaties and Other International Acts Series (TIAS) No. 2467.

Concurrent with the negotiations for the military assistance agreement, representatives of the United States and Cuba conducted negotiations for a supplementary military plan, which was initialed on March 7, 1952, by Ambassador Willard Beaulac and Cuban Minister of State Aureliano Sánchez Arango. The "Plan of the Governments of Cuba and the United States of America for Their Common Defense" was transmitted to the Department of State under cover of despatch 1504, from Habana, dated March 14, 1952, not printed (737.5 MSP/3–1452).

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1329 ff.

Editorial Note

On March 10, 1952, General Fulgencio Batista y Zaldívar led a *coup d'etat* against the regime of President Carlos Prío Soccarás which resulted in the latter's deposition and the formation of a new government by General Batista, who became President of Cuba on April 4, 1952. The coup and related events were reported in despatch 1472, from Habana, dated March 11, 1952 (737.00/3–1152), and more extensively in despatch 1693, from Habana, dated April 10, 1952 (737.00/4–1052). Additional pertinent documentation is in Department of State file 737.00 for 1952.

The notes of the Secretary's staff meeting, held at 9:30 a.m. on March 11, 1952, read in part as follows:

"3. Mr. Miller reviewed some of the details of the revolution in Cuba. He explained that this revolt came as a complete surprise to the U.S. Batista is basically friendly toward the U.S. and undoubtedly his government will be no worse than Prio's probably better. Batista may have considerable trouble with the trade unions. Mr. Miller explained that Prio had a corrupt government and gave in almost completely to labor demands. The Secretary asked whether we were going to consult with our other Latin American neighbors to determine what should be done in this case. Mr. Miller felt that we should wait and see what happens before we commit ourselves." (Secretary's Staff Meetings, lot 63 D 75)

737.02/3-2452

Memorandum of Conversation, by the Ambassador in Cuba (Beaulac)[1]

SECRET HABANA, March 22, 1952.

[Participants:] Dr. Miguel Angel de la Campa, Minister of State
The Ambassador

I saw Dr. Campa at the country home of Pedro Rodriguez Capote, Assistant Chief of Protocol of the Foreign Office.

Dr. Campa looked worn out. He immediately asked me to tell him frankly, based on our old friendship, why the United States hadn't recognized Cuba.

I reminded Dr. Campa that he was familiar with American practice so far as recognition was concerned. We took a good look at the new situation, we submitted it to the conventional tests, and then we made a decision concerning recognition. We had to think not only of the country involved but also of all the other American Republics. There were countries where revolutions and upsets might be encouraged by a precipitate act of recognition by the United States. We had to think of all those things. Furthermore, two weeks had not yet passed since Batista's *coup d'etat*. This might seem a long time to the Provisional Government in Cuba, but it was not a long time to the rest of the world.

I told the Minister that I was going to ask him certain questions and raise certain points; not that I had any doubt about them, but because other people might have doubt about them and therefore it was good for the United States and for the Provisional Government of Cuba to have them on the record.

I asked him whether the expression "in accordance with the Constitution or emanate from the laws" contained in his note No. 662,

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[1] Transmitted to the Department of State under cover of despatch 1561, from Habana, dated Mar. 24, 1952. In the despatch, Ambassador Beaulac stated in part the following: "I consider that our conditions for recognition have been met by the new regime and that we should proceed to recognize." (737.02/3-2452)

March 11,[2] to the Embassy was intended in any way to limit the international obligations that the Cuban Government was prepared to fulfill. He said that it was not intended in that way at all. It was a perfectly conventional phrase. He could tell me formally that Cuba would fulfill its international obligations.

I reminded Campa that General Batista used to have close relations with the Communists. I asked whether we might expect that these close relations would continue. Dr. Campa said that the Provisional Government and he himself would do what could be done under the law to eliminate the freedom and privileges which the Communists were now enjoying in Cuba.

I asked Dr. Campa whether he had anything to say on the treatment of private capital. I said I had in mind the situation deriving from Article 77 of the Constitution, which made it nearly impossible for a company to discharge a man and which therefore discouraged foreign investment and which led to such things as "interventions," which in my view amounted to expropriations. I referred to the case of the United Railways, a British concern, and to the case of the Orange Crush Company, which included American interests.

Dr. Campa said that he could not predict in detail what the Government would do in the field of private investment, but he thought General Batista's statements concerning private capital had been excellent. They had been very well received, and I doubtless knew that business men were among the most enthusiastic supporters of the new regime. He said he was confident that the new regime would do everything reasonable and practicable within the law to attract and protect private capital.

I asked Dr. Campa whether we could expect that there would be any steps taken in the near future toward more constitutional forms. I asked particularly whether the Congress might resume its functions or whether a Provisional President might be named.

Dr. Campa said that he did not think any steps of the kind suggested in the press would be taken at this time. He thought most of the suggestions were being made by people trying to confuse the situation. He said he thought Batista would instead concentrate on calling elections at the earliest possible moment. He said the press speculation had caused the regime a lot of trouble so far as recognition was concerned. If a Provisional President were named it would not be a case of a new regime. It would be the same regime.

I told him that my information was that Batista had offered the Provisional Presidency to Saladrigas[3] the day of the coup, but that Saladrigas had not accepted it.

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[2] Not printed.

[3] Carlos Saladrigas y Zayas, President, Cuban Consultative Council, and member of President Batista's Council of Ministers.

Dr. Campa then said he thought the events of March 10 were of importance to the United States. He said that an intolerable situation had developed in Cuba. Graft, gangsterism, and favoritism had made a travesty of democracy. He himself had been particularly worried about the interventions in which Cuba, together with Guatemala and other countries, had engaged. He said that the kind of government the Dominicans had, for example, was no business of Cuba's, and Cuba had pledged itself not to intervene in the Dominican Republic; but it had intervened, nevertheless. He said the results of all the activities of the former Cuban Government and its accomplices in the Caribbean had been so damaging to the cause of democracy and friendly relations among the countries of the Caribbean that he would [*could*] not help asking himself whether our enemies were not behind all these activities.

Dr. Campa said that, as I knew, he was not a politician himself. He was sixty-nine years old, had been a career diplomat most of his life, and this was going to be his last service to Cuba. Batista once before had brought order out of chaos and Dr. Campa thought he was going to do it again. Batista was in even a stronger position this time because he had no commitments with the army or any one else. His civilian supporters didn't even know about the coup until after it had occurred. The military, instead of being induced to follow Batista, had asked Batista to assume the leadership. The initiative had come from the officers, and not from Batista.

I asked Dr. Campa if he was sure of this and he said that he had been given to understand that that was the case.

Campa said that Cuba intended to respect its international obligations. It intended to restore normal relations with countries toward which the former Cuban Government had had an attitude of hostility. He mentioned Spain and the Dominican Republic in particular. He said he thought the United States should recognize promptly; that it was in our interest that the situation should develop in an orderly way. I reminded Dr. Campa that our Government had not been consulted about the *coup d'etat* and that Cuba could not expect automatic recognition from us. I asked whether our failure to recognize so far constituted a threat to the stability of the regime. Dr. Campa said that it did not.

I told Dr. Campa that I would transcribe faithfully what he said to the Department of State in Washington. I was sure our conversation would be helpful to my Government, and I hoped it would be to his.

611.37/3-2452

Memorandum by the Secretary of State to the President[1]

SECRET [WASHINGTON,] March 24, 1952.

Subject: Continuation of Diplomatic Relations with Cuba

In this memorandum I recommend for your consideration the continuation of diplomatic relations with the Batista Government in Cuba. If you approve the recommendation, I suggest that you authorize me to make the announcement on Thursday, March 27.

As you know, on the early morning of Monday, March 10, General Fulgencio Batista with the support of a group of officers of the Cuban Army overthrew the duly constituted Government of President Carlos Prío Soccarás. Batista's revolution came as a complete surprise both in Cuba and in this country and his revolution was carried out with remarkable ease and over virtually no resistance. Ambassador Beaulac in Habana has followed the situation with great care and he has reported that Batista is in complete control of the Cuban national territory and machinery of Government and that there is virtually complete acquiescence in his regime on the part of the Cuban people. Batista has not interfered with the Cuban labor unions or with the operations of the Inter-American Regional Office of the International Confederation of Free Trade Unions which is located in Habana. Eusebio Mujal, head of the Cuban Confederation of Workers, has publicly supported Batista as have representative business and commercial associations.

The Batista regime has formally requested our recognition and has made satisfactory public and private statements with regard to Cuban intention to fulfill its international obligations; its attitude towards private capital; and its intention to take steps to curtail international communist activities in Cuba. In connection with this latter point the Batista Government on March 21 refused to allow two Russian couriers with diplomatic pouches to enter Cuba from Mexico, and the new Cuban Foreign Minister has stated that he will not allow Russians to use diplomatic pouches in the future. While Batista when President of Cuba in the early '40's tolerated communist domination of the Cuban Confederation of Workers, the world situation with regard to international communism has changed radically since that time, and we have no reason to believe that Batista will not be strongly anti-communist. The new Cuban Foreign Minister, Miguel Angel de la Campa, signed the Stockholm Petition[2] two years ago, but the Embassy and the Department are satisfied that this need not be taken as indicating softness towards communism and in fact our reports are that Mr. de la Campa is anti-communist.

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[1] Drafted by Mr. Miller, with the assistance of Secretary Acheson. The source text bears no signature, but Department of State records indicate that this memorandum was approved by the Secretary and the text transmitted by telegraph on Mar. 24 to the President at Key West, Florida.

The Department of State naturally deplores the way in which the Batista coup was brought about and is apprehensive that this kind of thing may occur in other countries of Latin America where elections are being held this year. Consequently, the Department and Ambassador Beaulac in Habana have been proceeding with great caution in this matter despite our very special position in Cuba which includes heavy capital investment, enormous international trade, the Nicaro nickel plant operation, the Guantánamo Naval Base, three armed services missions and the recent signing of a bilateral military assistance agreement which requires implementation. At least ten countries of Latin America have already announced continuation of diplomatic relations with Batista. These include Mexico, Brazil, El Salvador, Honduras, Nicaragua, Panama, Colombia, Venezuela, the Dominican Republic and Haiti. France, Switzerland, Spain and China have also recognized Batista. We have been informed that Chile, Ecuador, Uruguay and possibly Costa Rica, which are among the leading democratic governments of the Hemisphere, will simultaneously act to recognize the Batista regime some time this week. We have been in consultation with those governments, and their view of the situation is roughly the same as ours. The United Kingdom, Canada and Austria have asked to be given advance notice of our action.

Under the circumstances I believe that it would be detrimental to the special relations that this country has with Cuba to hold up recognition any longer, and accordingly request your authorization to announce the continuation of diplomatic relations with Cuba on March 27 and to give suitable advance notice of this action to the interested governments.[3]

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[2] For information on this subject, see the editorial note, *Foreign Relations*, 1950, vol. IV, p. 276.

[3] The Department of State received President Truman's approval of the Secretary's recommendation on Mar. 27, 1952 (737.02/3–2752); on that date, Ambassador Beaulac informed Cuban Minister of State Angel de la Campa that the United States recognized the new Government in Cuba.

Miller files, lot 53 D 26, "Cuba—1952"

The Ambassador in Cuba (Beaulac) to the Assistant Secretary of State for Inter-American Affairs (Miller)

SECRET

HABANA, June 2, 1952.

DEAR NED: Thanks very much for your letter of May 21.[1]

I am dining tomorrow night with Laurence Crosby[2] and several other members of the Chamber of Commerce, including Messrs. Duys and Carter,[3] I believe, to give them an opportunity to express themselves on the question of the treaty,[4] etc.

With reference to Batista, I have had two or three brief, informal chats with him, but I have consciously refrained from rushing in to see him after the *coup d'état*.

Most chiefs of mission here expected that Batista would eventually give some sort of reception to meet the chiefs of mission or to give opportunity to the chiefs of mission to meet him. He never did this, however. Then the *Cincuentenario* came along and we all met Batista during that week. I had previously seen him at the home of Alfonso Fanjul.

Prior to the *Cincuentenario* I reminded Dr. Campa that President Batista had expressed the desire to have a chat with me sometime. The Minister asked me whether it was urgent that I see the President and I said it was not. I enclose a memorandum[5] of my conversation with Campa on that occasion.

Meanwhile, of course, I have spoken to Campa on the question of the debts, of the problem of the accountants, etc., and I will speak to Batista about them when I see him.

Within the next week or two I expect to see Carlos Saladrigas and have a talk with him about Cuban-American relations. I plan to tell him, as well as Batista, about Prío's promise to revive the battalion-for-Korea business. I do not intend, however, to suggest that the Batista Government revive the issue. I do not think it would be in our interest for it to do it at this time. It is not yet clear to me whether Batista is going to stay in or whether we are entering another very difficult political period here, with possible disturbances, etc. I don't think it is clear to anybody else, either, including Batista. It is obvious that the Government is worried. Military and naval officers are spending a large part of their time, including nights, in their barracks. Cars are being stopped and searched in Country Club Park and on roads entering Habana. The Government knows about Sánchez Arango's disappearance and probably suspects the worst. Batista has made very little progress in developing a popular following.

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[1] Not printed (Miller files, lot 53 D 26, "Cuba—1952")

[2] Laurence A. Crosby, President, American Chamber of Commerce in Cuba, and President, Cuban Atlantic Sugar Company.

[3] John Duys and Prescott Carter.

[4] Reference is to a draft treaty of friendship, commerce, and navigation, which the United States hoped to negotiate with Cuba. No such treaty materialized, however, during the period 1952–1954. Documents pertaining to this subject are in file 611.3742.

[5] Not printed.

Under the circumstances, if the Batista Government tried to send troops to Korea it would probably badly damage its standing in Cuba. It might bring about the fall of the Batista regime. It would be too bad to have it appear that the Batista regime had fallen on the issue of Korea. That would indeed be a defeat for us.

One reason that I have not rushed in to see either Batista or Saladrigas, aside from preferring that they invite me to see them, is that I have not been too sure of what to say to them; and the truth is, I am still not too sure, principally because of the uncertainties I have tried to indicate above. I have of course been very courteous with officials of the regime, including Batista and Saladrigas, and I shall do what I think is best calculated to induce them to cooperate with us. I should think that the prospect of getting their cooperation in general is good. I do not include Korea in this estimate, for the reasons set forth.

In conclusion, the principal question here is the stability of the regime, and I think that it is that situation that we have to watch before we can determine what we can and should do down here.

I told Al Nufer, and he tells me that he told you, that I should probably want to go to Washington for consultation sometime this month. Here again, I have not wanted to hurry my trip because I was hopeful of having more to say as time went on, and more specific recommendations to make. On both counts I think I should still wait a while before going to Washington, unless you have something to say to me that you would prefer not to say in writing.

I know that if you have any suggestions you will give me the benefit of them. This is not a happy situation down here. In fact, I get sick at heart when I think of the unfortunate developments that may possibly occur here. So far, our ability to limit those possible unfortunate developments is practically nil, but I am trying to be alert to any possibility that we can be helpful in the future.

[Here follow personal remarks.]

With kindest personal regards,

Sincerely yours,

WILLARD

Miller files, lot 53 D 26, "Cuba—1952"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Cuba (Beaulac)

SECRET OFFICIAL–INFORMAL [WASHINGTON,] June 10, 1952.

DEAR WILLARD. I have your excellent letter of June 2[1] about the general situation in Cuba and I thoroughly agree with you on every count. I see no point in your taking the initiative in going to see Batista. On the contrary, it seems to me that the present situation in Cuba is such that our attitude should be one of aloofness. The Cubans seem to be headed for a terrific mess both politically and economically and, as you say, our ability to limit these developments is almost nonexistent. Consequently, if we become busybodies and take the initiative in approaching Batista to discuss our relations, we are liable to end up to some extent or another on the hook with an undischargeable responsibility for their problems. It seems to me that even Lopez Castro[2] and Mañas[3] when they came in to see me recently[4] on the sugar problem recognized that there was not very much we could do about it. Although their note[5] discussed a lot of possibilities, such as stockpiling, it seemed clear from their conversation that the only thing they seriously thought we could do about it was to press for an international sugar agreement. Even this could not be decisive. What the Cubans ought to do is to turn some of their cane land into grazing land for cattle thus reducing their sugar production to reasonable limits and take advantage of their enormous beef raising potential for which they have a ready outlet in this country. However, this would take three to five years, I suppose, and in the meantime all sorts of trouble can develop.

If you can come up we would be glad to see you whenever you decide that you want to come. I expect to be in Washington fairly steadily with the exception of (a) a couple of days in New York early next week, (b) the trip to Brazil[6] which will take me away about June 30–July 8 and (c) a trip to California late in July.

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[1] *Supra.*

[2] Amadeo Lopez Castro, President, Cuban National Development Commission, and Minister Without Portfolio in President Batista's Cabinet.

[3] Arturo Mañas, Cuban Sugar Stabilization Institute.

[4] Reference is to a meeting held at the Department of State on May 28, 1952; a memorandum of that conversation, dated May 28, not printed, is in Miller files, lot 53 D 26, "Cuba—1952".

[5] A translation of this note, which is dated May 28, 1952, is in the Miller files.

[6] Mr. Miller accompanied Secretary Acheson when he visited Brazil, July 2–8, 1952; for information on the Secretary's trip, see the editorial note, p. 586.

I had lunch with Luis Machado[7] yesterday and he is his old self once more. He has gotten what he said was the enthusiastic concurrence of his Government to vote for him as Executive Director of the International Bank and until the election is held in September, he will take a part-time job as a member of Gene Black's staff. He is quite pessimistic over the outlook in Cuba for the next three years and thinks that Batista got in at the worst possible time. He said that Batista was like the fellow who came in at the end of the party and was then handed the check. He said that Prio was sitting quietly in Miami enjoying life and almost relieved at being out from under in the nick of time.

Incidentally, on the question of the instability of the regime, Herbert Matthews of the *New York Times* tells me that they are getting rumors from Ruby Phillips[8] in Habana that there is friction between Batista and "the military junta". I said that I had heard these reports just after Batista took over but had not been hearing them recently.

With kindest regards,

Sincerely

EDWARD G. MILLER, JR.

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[7] Cuban Ambassador to the United States until April 1952.

[8] Ruby Hart Phillips, *New York Times* correspondent in Habana.

Editorial Note

By an exchange of notes, signed at Habana, June 26 and July 11, 1952, and entered into force on the latter date, the United States and Cuba agreed that for the present time United States armed forces missions in Cuba would perform the functions of a Military Assistance Advisory Group (MAAG), in accordance with provisions of the United States-Cuban Military Assistance Agreement. The notes were transmitted to the Department of State under cover of despatch 76, from Habana, dated July 14, 1952 (737.5 MSP/7–1452).

In airgram A–273, to Habana, dated February 9, 1953, the Department informed the Embassy that the Department of Defense recommended the establishment in Cuba of a MAAG consisting of 3 officers and 4 enlisted personnel at a cost of $53,000 for an 18-month period, and instructed Ambassador Beaulac to initiate negotiations with the Cuban Government to determine the amount of local currency it would provide to cover United States administrative and operating costs in connection with the proposed MAAG (737.5 MSP/2–953).

In despatch 1309, from Habana, dated February 19, 1953, Ambassador Beaulac stated that he had "serious objection" to initiating negotiations for the establishment of a separate MAAG in Cuba for the following reasons: (1) the United States was committed not to establish a separate MAAG in Cuba, (2) there was no need for such a group, (3) there were already 38 military personnel in Cuba, in addition to those attached to the Embassy, and a separate MAAG would increase liaison problems and thus retard rather than expedite the MDAP program, and (4) because pressure on Cuba to accept a MAAG might jeopardize the chance of obtaining full military cooperation from Cuba (737.5 MSP/2–1953).

In airgram A–238, to Habana, dated March 20, 1953, the Department informed the Embassy that the Defense Department, after having recalculated its original estimate with respect to the size of a MAAG for Cuba, now recommended a complement of one officer and one enlisted man, and a local currency requirement of $11,700. The Department instructed Ambassador Beaulac to obtain the Cuban Government's consent to the assignment of a MAAG to Cuba, and to provide the necessary amount of local currency (737.5 MSP/2–1953).

In a note dated June 1, 1953, the Cuban Ministry of State indicated that the Cuban Government, at the present time, was unwilling to provide the local currency required to maintain a separate MAAG in Cuba, because MAAG functions were adequately being performed by the Chief of the United States Air Mission in Cuba, Colonel Fred G. Hook, Jr., who was acting as Chief of MAAG. A copy of the Cuban note was transmitted to the Department of State under cover of despatch 1918, from Habana, dated June 9, 1953, not printed (737.5 MSP/6–953).

The Department's airgram A–31, to Habana, dated July 27, 1953, contained a Defense Department message in which Defense stressed the necessity of establishing a separate MAAG in Cuba for the purpose of executing its statutory responsibilities with respect to the military assistance program, requested the Embassy to press for the local currency requirement, and recommended that if the Cuban Government continued to decline the United States should consider the indefinite suspension of the Cuban program (737.5 MSP/6–953).

Department of State records indicate that no separate MAAG was established in Cuba during 1953 or 1954.

837.235/7-2952

Position Paper Prepared in the Department of State[1]

CONFIDENTIAL [WASHINGTON,] July 15, 1952.

A RECOMMENDED POSITION IN THE EVENT THAT CUBA SHOULD REQUEST THE DEPARTMENT'S VIEW ON THE SALE OF SUGAR BEHIND THE IRON-CURTAIN

BACKGROUND

As a result of increased plantings and favorable weather conditions, it is anticipated that Cuba's 1952 sugar crop will be the largest in that nation's history and that there will be a sugar surplus possibly approaching two million Spanish long tons. The Batista administration is extremely concerned about the effect that this surplus and subsequent possible surpluses can have on the price of sugar and about the repercussions that a fall in price could have on the Cuban economy. In accordance with a plan advanced by representatives of the Cuban sugar industry, the Cuban Government intends to take measures to restrict 1953 sugar production to five million Spanish long tons and to dispose of the surplus remaining from the 1952 crop over a period of five years. There is some dissatisfaction with this plan however, on the part of certain elements in the sugar industry and labor groups who would prefer unrestricted future production and the maintenance of the present level of employment.

Cuban Communists have seized this opportunity to initiate a press campaign in favor of Cuban trade with the Soviet bloc. Stressing the point that restriction of the sugar crop would mean "hunger, misery and ruin for labor and for the country," the Communists have suggested that Cuba open extensive commercial relations with China, the Soviet Union, and the "People's Democracies". Markets in these countries have been depicted in glowing terms by the Communist press.

It is believed that few responsible Cubans will entertain illusions about trade behind the "Iron Curtain". It appears probable, however, that every possible outlet for Cuban sugar will be explored. In this connection, Cuban representatives may be expected to request the views of the Department regarding the selling by Cuba of sugar behind the "Iron Curtain".

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[1] Drafted by Cedric C. Phillip of the Office of Middle American Affairs; cleared with the Offices of Regional American Affairs, East European Affairs, and Chinese Affairs, the Economic Defense Staff, and the Agricultural Products Staff. Forwarded to Deputy Assistant Secretary Mann, Director of the Office of Regional American Affairs Cale, and Director of the Office of Middle American Affairs Rubottom under cover of a memorandum by Mr. Phillip, dated July 29, 1952. The covering memorandum indicates that Mr. Cale and Mr. Rubottom concurred; it also bears the following handwritten notation, initialed by Mr. Mann: "it is a commendable thing to anticipate problems of this kind and if the question is squarely put up to us this will make it possible to reach a conclusion very quickly. But, lawyer-like, I prefer to pass final judgement when the issue is drawn."

PROBLEM

What should be the position of the Department of State in the event that Cuban representatives request its views on selling by Cuba of sugar behind the "Iron Curtain".

FACTORS

Among the factors which should be brought into a consideration of the problem are the following:

(1) It is the policy, and in the best interest, of the United States to assist Cuba to maintain its economic and political stability and to develop its economy and political system.

(2) A failure by Cuba to dispose of its surplus sugar crop in an orderly manner and at normal prices could severely threaten both the economic and political stability of Cuba.

(3) Sugar is not considered a strategic commodity at the present time by the United States or by other nations of the free world. United States policy does not preclude its sale, or that of other items not included on strategic lists, to the U.S.S.R. and to the Eastern European nations comprising the Soviet bloc. Exports to Communist China and to North Korea, however, are not permitted by the United States and by many other members of the United Nations.

(4) The U.S.S.R. and the Eastern European countries of the Soviet bloc, according to available recent statistics, are in an export position as far as sugar is concerned. Communist China has a relatively small need for sugar imports, and its area has not furnished in the past a normal market for Cuban sugar. It would seem therefore, that the "Iron Curtain" countries do not constitute a market for Cuban sugar under normal circumstances.

(5) In the light of recent Communist divisive activity in Cuba and elsewhere, however, it would not be unlikely that a Communist country, for purely propagandistic reasons, would make an offer to purchase Cuban sugar. Such an offer probably would not be for a quantity of consequence, but it could have strong propaganda effect. To achieve this, the Communist countries might offer to make payment in dollars—something which the Cubans would probably require. Such payment from Communist China and/or North Korea would almost certainly involve United States banking facilities or Chinese credits in United States banks, either of which would be in contravention of United States Treasury regulations.

(6) The degree of opposition which the United States could express to Cuba's trade with Communist China is limited by the fact that United States policy does not call for special pressure against certain Western European countries such as Great Britain to desist in their "normal" trade in non-strategic commodities with Communist China.

(7) In both the UN and the OAS, Cuba has joined with the United States and the other free nations in measures which, in the former, recommend a strategic embargo against Communist China and North Korea and, in the latter, express agreement to cooperate fully in the adoption of measures of economic defense and security control. The United States would wish Cuba to observe these commitments and, also, to follow with the other nations of the free world as much as

possible, the example of the United States in regard to trade behind the "Iron Curtain".

(8) The United States is not in a position to offer Cuba any substantial assistance in disposing of the sugar surplus. A Cuban delegation came recently to Washington to discuss with United States officials on an informal basis the situation in Cuba and to outline the measures being taken to relieve it. The delegation requested United States assistance in the intensification of efforts to reach a new International Sugar Agreement. It also asked that the United States Government consider certain additional measures collateral to the stabilization of the sugar market through an international agreement. It appears that the Cubans will have to be given a predominantly negative reply to the latter requests. The United States, however, already has taken a position in favor of a revised international agreement and will continue to support Cuba in international discussions toward this end.

RECOMMENDATIONS

In the light of the above factors and the present international situation, it is recommended that the Department adopt the following position:

(1) If Cuba should request the views of the Department of State in connection with consideration of a Cuban sale of sugar to the Soviet Union or to the Eastern European countries within the Soviet bloc, it is recommended that the Department point out to Cuba that the United States does not embargo the sale of non-strategic items such as sugar to these countries. The Department should then indicate that a decision to sell sugar to those countries is one for Cuba alone to make. It would be implicit in its reply that the Department has no overriding objection to such a sale.

(2) If views are asked in connection with a possible sale to Communist China or North Korea, it is recommended that the Department remind Cuba that the United States prohibits all exports to that area and that, accordingly, a Cuban sale of sugar to Communist China or to North Korea would not be viewed with favor. This reply should be accompanied by an expression of sympathy for the Cuban problem and of an appreciation for the Cuban inquiry and for past cooperation in denying the benefit of free world production to that area. If Cuba should refer to the United States attitudes regarding the trade in non-strategic commodities of certain Western European countries with Communist China, it can be pointed out that Cuba, unlike those European nations, has never developed a comparable pattern of trade with Communist China, and it is not in a position to plead the necessity of continuing an established trade. If Cuba, however, should indicate that the terms for the sale would involve an exchange of sugar for some strategic commodity which would add materially to the strength of the free world, it should be informed that this factor would be a consideration that might outweigh objections which would otherwise attach to the transaction.

737.5 MSP/1-953: Telegram

The Ambassador in Cuba (Beaulac) to the Department of State

TOP SECRET HABANA, January 9, 1953—6 p.m.

332. Reference Circular Airgram November 24, 1952, 3:45 p.m. and Top Secret cirtel 722 January 7, 1953.[1]

Cuba's economic development in recent past has been retarded less by inadequate technical assistance than by official corruption and demagoguery and by nationalistic and restrictive laws and practices which have discouraged private investment. In circumstances our Point IV program is small and directed at objectives of immediate as well as long-range importance to United States and Cuba.

Most important is cooperative fiber project aimed at development Kenaf industry which in turn it is hoped will help make continent less dependent on bagging material from Far East.

Considerable success has attended program. Kenaf varieties developed adaptable Cuban conditions which have high percent good quality fiber and resistant disease. Decorticating methods and machinery developed and have demonstrated feasibility mechanizing extraction Kenaf fiber.

Although project still experimental, more than $1 million private capital invested in industry last year and all companies and private individuals now operating expected expand or continue plantings this year.

Cuban Government attaches great importance to Kenaf project and gives full credit American cooperation. Cuban requirements bagging fiber approximately 110 million pounds annually which would require 110,000 acres to grow and labor of 10,000 workers three months annually during sugar industry's dead season. Land for Kenaf industry immediately available without disturbing other crops or industries.

Minerals program and limited aid in specialized fields authorized but United States has failed implement program apparently for bureaucratic reasons. Program is of great importance to United States and should be implemented promptly.

Embassy recently instructed by Department State suggest to Cuban Government that present overall Point IV Agreement[2] which is working satisfactorily be replaced by more complicated and cumbersome agreement which probably would conflict with Cuban Constitution.

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[1] The referenced airgram (700.5 MSP/11-2452) and circular telegram (700.5 MSP/1-753) requested reports from chiefs of mission abroad concerning the status of programs authorized by the Mutual Security Act of 1951.

For text of the Mutual Security Act (Public Law 165), approved Oct. 10, 1951, see 65 Stat. 373.

[2] For text of the general agreement for technical cooperation, signed at Habana, June 20, 1951, and entered into force on the same date, see TIAS No. 2272, or 2 UST (pt. 2) 1231.

Embassy and competent Cuban officials opposed to adding to or replacing existing agreement at this time.

Cuban Air Force received grant aid during 1952 which is being used increase operational effectiveness aircraft. Additional such aid planned for 1953 and 1954. While grant aid given fairly promptly, great delays have occurred in connection reimbursable aid. Recommend reimbursable aid be given higher priority and encouraged and that red tape in connection therewith be reduced.

1953 program of grant aid is planned for Cuban Navy. Meanwhile, Cuban Government taking useful steps place vessels and naval aircraft in state of readiness.

Military coup 10 March 1952 raised delicate problems for United States in view close cooperation with Cuban Armed Forces which are more preoccupied with domestic political situation and maintaining own political position than with contributing continental defense. Essential our military assistance be quiet and discreet and that air and high-ranking military officers and public ceremonies in connection such visits be sharply limited.

Sudden decrease Cuban Government's revenues and fact majority Cuban people living under very difficult economic conditions makes it especially important we keep our requests for Cuban contributions in money to minimum.

Combination of (1) political tension following violent change in government which occurred 10 March 1952 when Batista assumed Presidency by force, and (2) sudden drop in income from sugar due to withholding large amount last year's crop from market and to limitation this year's crop naturally limits Cuba's ability cooperate in specific matters with United States. Nevertheless, present regime committed to policy cooperation and in some ways is giving more satisfactory cooperation than Constitutional regime which preceded it.

BEAULAC

837.232/1–1653: Airgram

The Acting Secretary of State to the Embassy in Cuba

CONFIDENTIAL WASHINGTON, February 3, 1953.

Subject: Review of United States Interagency Discussions on Kenaf.

A–268. Reference Embassy's Telegram No. 342, January 16, 1953.[1] The following is a review of recent United States interagency discussions on kenaf:

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[1] Not printed (837.232/1–1653).

(1) In late November 1952 the Munitions Board Interdepartmental Fibers Committee reviewed the kenaf fiber purchase program for 1952 and considered the question of whether the program should be continued in the future. The following recommendations were adopted unanimously and subsequently accepted by the Munitions Board:

(a) That the MB request the Department of Agriculture to continue, perhaps in modified form, a kenaf fiber production program. The Committee recognizes that in the present circumstances the fiber purchase goal need not be as large as the 1952 goal of 15 million pounds; perhaps a reduction of one fourth to one half may be feasible. Suitable modifications in the price schedule also appear desirable.

(b) That the Committee also recommends the establishment, under the Defense Production Act,[2] of a research and development project to study and develop kenaf fiber-preparation processes (mechanical decortication, chemical extraction, water-retting, or other means).

(2) However, the Defense Production Administration (the agency which has responsibility for certifying the essentiality of the kenaf fiber purchase program) concurred in recommendation (a) only on the condition that the Committee adopt a resolution along the lines of (b). The DPA representatives noted that CCC's 1951 and 1952 seed and fiber purchase programs offered proof of the fact that kenaf can be grown successfully in a number of western hemisphere countries. On the other hand, they believed that comparatively little progress had been made toward the successful mechanization of kenaf cultivation and fiber extraction. With jute again in a surplus position, and likely to continue to be in ample supply in the foreseeable future, the prospects of the western hemisphere's kenaf production becoming competitive with jute are greatly reduced. The DPA representatives questioned that continuation of a fiber purchase program for another year would contribute to the solution of the problem of achieving economical production and extraction methods. In their opinion much more could be accomplished by concentrating resources on a machinery research and development project. Other agencies, including State, agreed with the DPA officials as to the desirability of establishing such a project and welcomed their proposal to sponsor the undertaking. (In previous discussions the Committee had been given to understand that the legislative authority for DPA to finance such an undertaking was lacking.) On the other hand, they considered that one year's operation did not offer a fair test of the value of the fiber purchase program. They feared that by withdrawing at this time both the Government and the growers might lose the benefit of the substantial investment which has been made in kenaf and the knowledge which has been gained. Furthermore, they considered that an extension of the fiber purchase

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[2] Reference is to Public Law 774, approved Sept. 8, 1950; for text, see 64 Stat. 799.

program could contribute to the solution of the problem by encouraging the utilization of existing facilities, which are comparatively untried. They believed that by reducing the scale of the program and by appropriate adjustments in prices, the cost of the fiber program would be modest in comparison with the benefits which might be derived. The DPA representatives then modified their position and assented to continuation of a fiber purchase program in 1953 on the condition mentioned above.

(3) Unfortunately when DPA began its plans for the implementation of recommendation (b) it was found their legal authority to finance this kind of a project was questionable. Consequently, they withdrew their previous offer, and requested the Munitions Board to reopen the subject. This development took place just before the time the Official Cuban Government Commission on Kenaf visited Washington. (A copy of a memorandum of conversation[3] on a meeting held with the Cuban Commission is being forwarded to the Embassy.)

(4) In the past week two lines of action have been started with a view to resolving this matter at the earliest possible date.

(i) Consultations are under way with the Technical Cooperation Administration to see whether that agency can help finance a long term project to develop improved bast fiber production processes. Since the purpose of TCA is to assist governments through providing technical rather than financial assistance, the major financing of such an undertaking would by necessity have to come principally from the interested foreign governments.

(ii) An interdepartmental working group is developing data on soft fiber supply and requirements based on full mobilization. Justification for the continuation of a fiber purchase program in 1953 will largely depend on the results of this study. In this connection, it should be noted that while kenaf may offer some promise as a bagging fiber for western hemisphere countries which have soft-fiber weaving facilities, this consideration does not apply in respect to the United States. There is practically no burlap-weaving machinery in this country, and little prospect that private interests will invest in such facilities. Government financing of burlap-weaving facilities is considered extremely unlikely. Therefore, so far as U.S. strategic considerations are concerned, the need for kenaf would depend in main on the position in soft fibers. There is some possibility that kenaf may be of strategic value as an extender for hard fibers but this is still conjectural.

(5) As matters now stand it seems very unlikely that final action with respect to a kenaf fiber purchase program will be taken before another 4 to 6 weeks.

The above is for the information of the Embassy only. It is suggested that in replying to any inquiries on the status of the United States

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[3] Not printed.

Government kenaf development activities the Embassy may at its discretion make use of the following information:

(i) Cuba's cooperation in fostering kenaf cultivation has been very gratifying. It is considered that great progress has been made from the agronomic standpoint. Although the disease problem has not been entirely overcome, prospects for developing disease resistant strains appear favorable.

(ii) Progress toward economical methods of mechanization has been disappointing particularly in view of the considerable sums of private capital which have been invested. Research and development in kenaf harvesting and fiber extraction and processing machinery is needed. The Technical Cooperation Administration has expressed the expectation of continuing the Cooperative Fiber Commission at about the present level. In addition it is exploring the possibility of establishing a long term project to develop improved bast fiber production processes.

(iii) The annual review of the strategic significance of kenaf is under way, and should be completed in another 4 to 6 weeks. There is as yet no basis for predicting whether this review will provide the necessary justification for the use of United States Government funds for subsidizing kenaf fiber purchases in 1953. Consequently, assurances of continuation of the fiber purchase program cannot be given at this time.

The Department will notify the Embassy as soon as action on the kenaf fiber purchase program is finalized.

MATTHEWS

837.2547/3–2353

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Assistant Secretary of State for Inter-American Affairs (Cabot)[1]

CONFIDENTIAL [WASHINGTON,] March 23, 1953.

Subject: Request by Representative of Freeport Sulphur Company for Appointment to discuss Nicaro

Several weeks ago Mr. Spruille Braden[2] asked me to arrange an appointment with you for himself and Mr. Langbourne Williams, President of Freeport Sulphur Company, to present the views of the company regarding the operation of the nickel plant wholly owned by the United States Government at Nicaro, Cuba, after you had had an opportunity to familiarize yourself with this situation.

This memorandum summarizes the principal developments with respect to Nicaro since late 1950, with particular emphasis upon the objections and interests of Freeport Sulphur. Officers of the Bureau familiar with the background will be glad to amplify this summary if you should wish.

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[1] Drafted by Mr. Wellman.

[2] Ambassador to Colombia (1939–1942), Cuba (1942–1945), and Argentina (1945), and Assistant Secretary of State for American Republic Affairs (1945–1947).

Freeport interest in Nicaro

Freeport operated the plant under contract with the United States Government during World War II and until its closing in 1947 as an uneconomic enterprise. Freeport owns the nickel-ferrous ore deposits now used by the plant and receives a generous royalty from the present operator. Freeport itself did not compete in 1950 for the right to operate the rehabilitated plant, but American Smelting & Refining Company, an unsuccessful bidder, had made an arrangement with Freeport to give it a half non-controlling interest in the proposed operating company in lieu of royalties.

Freeport critical of General Services' Operation of Nicaro

Freeport has been critical of the award of the operating contract in January 1951 to the Nickel Processing Corporation organized and then controlled by the Dutch Billiton company, but having a minority Cuban participation. It has criticized both the principle of Cuban participation and the reputation of one of the Cubans having an interest in the participating Cuban company. It has expressed resentment over the criticism by the then Cuban Government (expressed in a letter[3] from then President Prio to ex-President Truman urging Cuban participation) of labor relations during its operation of Nicaro during World War II. Freeport has indicated it now is itself interested in operating Nicaro, and would like to bid for the privilege on an equal basis with other interested parties. It is undoubtedly influenced by the increase in the market price of nickel, the continuing demand for defense requirements, including stockpiling, and the development by the United States Government of additional ore reserves in connection with a projected expansion of Nicaro with consequent reduced dependence upon Freeport ore.

General Services the responsible Government Agency

The General Services Administration was given the responsibility in 1950 to rehabilitate and bring back into operation the Nicaro nickel plant in order to meet defense needs for this critical metal. In early 1951 it awarded the rehabilitation contract to the Frederick Snare Corporation and the operating contract to the Dutch Billiton company, which had in General Services' opinion submitted a better bid than the only other bidder, the American Smelting & Refining Company. The Munitions Board had certified these two companies and a third which did not bid to be competent to operate Nicaro. General Services approved the arrangement by which the Billiton Company organized the

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[3] Dated Oct. 7, 1950, not printed.

Nickel Processing Corporation to operate Nicaro and gave a minority participation in the ownership and direction of the company to both a Cuban group and the National Lead Company. It subsequently approved in May 1952 the sale by Billiton of its interest to National Lead and the Cuban group, leaving National Lead with 60 percent ownership and management control. Finally in February 1953 General Services confirmed a five-year management contract with the Nickel Processing Corporation to extend to mid-1957.

Department of State Activity in Nicaro Operation

The Department of State, while recognizing the legal responsibility of General Services for the operation of Nicaro, has had an active and continuing interest in this activity. The Department recommended that the letter of October 7, 1950, from President Prio of Cuba to President Truman, which stressed the advantages of Cuban participation in Nicaro, receive a non-committal reply and be referred to the agencies responsible for selection of an operator. The Department subsequently communicated to General Services in late 1950 the desire of the Cuban Government, repeatedly affirmed to our Ambassador in Habana and by the Cuban Ambassador in Washington, for Cuban capital and management participation in the reactivated Nicaro plant. In communicating the Cuban Government's views, the Department emphasized that it endorsed no particular Cuban group, but recommended serious consideration by General Services of Cuban participation in principle provided it was on a bona fide, business-like basis.

In July 1951 the Department informed General Services, which had consulted the Department, that the Department perceived no objection to General Services approval of the arrangement negotiated by the selected operator with the only Cuban group interested in participating in the ownership and management of the operating company. Since 1950 the Department and Embassy Habana have continually helped to facilitate the rehabilitation and operation by securing Cuban Government cooperation, such as granting customs exemptions and port privileges, admitting foreign technicians and resolving labor disputes. We have continued to assist in a projected program for plant expansion by securing Cuban Government approval of ore exploration on public lands and a Cuban Government commitment for comprehensive tax exemptions.[4]

Nicaro a Producing Defense Plant

Nicaro reached full production in July 1952 and is producing nickel oxide at the rate of 27.5 million pounds per annum. The operating company is committed to research in the further development of nickel production and the reclamation of cobalt. The United States Government invested 32 million dollars in the original plant and 12 million dollars in the rehabilitation, and for your confidential information, has in prospect an expansion program which would cost about 43 million dollars and would increase plant capacity by about 75 percent.

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[4] In telegram 470, from Habana, dated May 11, 1953, Ambassador Beaulac informed the Department of State that President Batista had signed a decree granting broad tax exemptions for the Nicaro project (837.2547/5–1153).

Attitude of New Cuban Government to Nicaro Operation

The Batista Government like the Prio Government wants Nicaro to continue as a permanent Cuban industry. It is willing to grant tax exemptions and other privileges because Nicaro is a non-profit United States Government-financed industry, contributing to hemisphere and free world defense and to the Cuban economy. The Cuban group which purchased participation in the operating company was sponsored by the Prio Government, and its initial spokesman, Inocente Alvarez, was close to Prio and does not have the confidence of the Batista Government. The Batista Government informed us in July 1952 that it viewed the Prio letter as irregular and as having no validity, and that the United States Government need not feel obligated by it. The Batista Government refused, however, to send another communication to the United States Government to overcome the effects of the Prio letter, as requested by a Freeport representative, and took the position that the operation of Nicaro is a United States responsibility. Furthermore, the Batista Government has indicated it does not wish to disturb the existing arrangement under which Nicaro is operated with Cuban participation. A prominent pro-Batista lawyer, Oscar García Montes, was secretary of the Cuban participating company when established and is now one of the two Cuban directors of the operating company. General Services Administration states the Cuban participants have been very helpful in the Nicaro operation, especially in labor relations and development of new ore reserves.

Recommendation

The Freeport representatives may attack the General Services Administration for decisions disliked by Freeport. In commenting upon their statement, it is recommended you emphasize General Services' statutory authority and responsibility for Nicaro and stress the Department's limited interest and contribution. It may be advisable to affirm that the Department recommended that General Services consider the desirability of Cuban participation, because the Cuban Government strongly urged it and because the Department approved participation by Cuban nationals in principle. In such case, you should emphasize that the Department recommended no particular Cuban group.

The Department made no objection to the approval by General Services of the arrangement negotiated by the selected operator under which a Cuban corporation composed of Cubans genuinely interested in Nicaro for several years and possessing knowledge and experience useful to the operating company, purchased a 20 percent participation. If the approval of this arrangement should be attacked because of the interest of Alberto Inocente Alvarez, ex-Cuban Minister of Commerce, Minister of State and UN representative, because of his alleged private immorality and venality in public office, you might comment that he was not a shareholder of the Cuban corporation when first organized and has not, so far as is known, been actively connected with the direction of the operating company, or had any contact with United States Government officials in connection with the operation of Nicaro. You may inform the Freeport representatives that a high official of the Batista Government assured the United States Ambassador in June 1952 that it has nothing against Freeport Sulphur.

837.232/4–2153

Memorandum by Harvey R. Wellman of the Office of Middle American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)[1]

CONFIDENTIAL [WASHINGTON,] April 21, 1953.

Subject: Discontinuation of CCC Purchase Program for Kenaf Fiber.

At a meeting on April 14 of the Inter-Agency Committee on the Kenaf Fiber Purchase Program,[2] the representatives of ODM stated that they were recommending to Mr. Flemming of their agency that the Kenaf Fiber Purchase Program not be continued. Those representatives said that this recommendation would be accompanied by a draft of a letter from Mr. Flemming to Secretary of Agriculture Benson, advising him that ODM could not certify the Kenaf Fiber Purchase Program for subsidization under the Defense Production Act. It is understood that Mr. Flemming will accept the recommendation.

The CCC Fiber Purchase Program has existed only for the crop year 1952. For one year prior to that there was a Purchase Program for kenaf seeds only. I am informed that the decision to engage in a Fiber Purchase Program was motivated by a desire to develop a source of supply of a jute substitute in this hemisphere, because of security considerations. A secondary consideration was the hope that such a program would assist in the improvement of production processes, which have been both inefficient and costly.

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[1] Drafted by John L. Topping of the Office of Middle American Affairs.

[2] A memorandum by Willard O. Brown of the Agricultural Products Staff to Mr. Evans, dated Apr. 17, 1953, summarizing the referenced meeting, is contained in MID files, lot 56 D 569, "Kenaf Fiber Project."

This decision was taken, and the program operated, apart from the work of the Cooperative Fiber Commission, sponsored jointly by the Governments of the United States and Cuba, which had existed since 1942. That Commission had developed suitable strains of kenaf, and was and is engaged in efforts to develop more efficient processing methods. Our Government is interested in the work of the Commission for the security considerations stated above, and also on the grounds of technical assistance, since the development on a sound economic basis of a crop such as kenaf in Cuba is a step towards diversification of that country's agricultural economy as well as a means of freeing it from dependence on foreign sources of supply for bagging its principal commodity, sugar. The Cuban Government, of course, is interested primarily only in the latter considerations.

It has been the opinion of this office, and of those offices of the E area of the Department concerned with the Fiber Purchase Program, that the determination for the need for, and the justification of, any such program must be based on security considerations, which are principally the concern of other agencies of our Government. The previous programs were based on such considerations, and were financed by DPA, which has now been absorbed by ODM. At the meeting on April 14, Dr. Morgan of ODM, which now administers the Defense Production Act, stated that his agency has been charged with reviewing all expansion programs with two considerations in mind: (1) a reduced military urgency (based on consultations with the Joint Chiefs of Staff); and (2) a desire to save money under the new administration's economy program. He then stated that ODM had concluded that since neither kenaf nor jute, for which kenaf is a substitute, is a strategic or critical material, the proposed Kenaf Purchase Program for 1953 did not meet the revised criteria to warrant further developmental expenditures for subsidization under the DPA Act. None of the representatives of other agencies present produced evidence or arguments which offset that conclusion. Mr. Brown of the Agricultural Products Staff of the Department was present, and made a statement which had been prepared in consultation with this office. He said that the Department's position on this question has always been that the determination of need for, and the justification of, the Kenaf Fiber Purchase Program must be made strictly on the basis of security considerations. At a previous meeting of the interdepartmental working committee on fibers, the Department's representative recognized, along with other members of the fibers committee, that the documentation of the program was insufficient, and urged that steps be taken to correct this situation as quickly as possible. Some of this material had been presented today, he stated.

He said that the State Department representative had previously pointed out that delay in determining the fate of this program was already causing difficulties in our relations with Cuba, and that the longer the Government took to reach a decision the more serious would be the repercussions if the decision were against continuation of the program. He expressed the belief that there is no doubt that the prolonged consideration that has been given to this program has kept the hopes of its continuance alive in Cuba and other interested countries, and that a decision to drop the Kenaf Purchase Program at this late date could have very unfortunate repercussions on our foreign relations.

This office feels that the discontinuance of the Fiber Purchase Program will be a severe blow to the commerical producers of kenaf in Cuba, who do not apparently have any other market for their product, and may well cause the collapse of commerical production of kenaf in that country. It is our understanding that these producers have invested over one million dollars in the industry as it now stands. However, we are informed that there is at present no market for kenaf, so long as adequate supplies of jute are available, and that the trade considers kenaf a poor and inadequate substitute for jute. In order for the growing of kenaf to become an economically sound industry, it will be necessary for more efficient methods of production to be developed. For Cuban kenaf to be available in the form of bags for sugar or other crops in Cuba or the United States, it will be necessary for a bagging industry to be developed, since the material for jute bags used in the western hemisphere is either received from the far eastern sources as bags, or as cloth which is simply cut to size and sewn into bags, and neither country has a suitable weaving industry. It is our understanding that the present cost of production of kenaf would have to be greatly reduced, to less than half its present level. It does not therefore appear that the commercial production of kenaf is at present a sound venture, or that those persons who have been engaged in it should be encouraged to continue. It was fully explained to the foreign producers who produced kenaf under the previous Fiber Purchase Program that there could be no guarantee of continuance, and that there is no obligation on the part of the United States Government to do so.

For the various reasons given above, this office recommends that the decision reached by ODM be accepted, and that no further efforts be made by ARA to obtain an extension of the Fiber Purchase Program.

This decision will undoubtedly be disappointing to the Cuban Government. However, this office has been informed by Mr. Peterson[3] of IIAA and Mr. Horn[4] of the Department of Agriculture, who has been closely connected with the Cooperative Fiber Program since its inception, that the Cuban Government appears determined to continue with that Program, and that the decision not to continue a Fiber Purchase Program, may well strengthen the determination of that Government, and encourage it to place even greater emphasis on attempts to develop a sound kenaf industry. Mr. Horn adds that the Cooperative Commission is actively investigating various ways of improving the production processes of kenaf, by mechanical, chemical or retting methods, and there is good basis for hope that the investigations will lead to production methods of greatly increased efficiency in the near future. Another difficulty in connection with the kenaf industry has been the lack of mechanical harvesting methods, and Mr. Horn states that that problem is being tackled by our Department of Agriculture. In view of these opinions, this office further recommends that the Department of Agriculture and the IIAA be urged and assisted to proceed as rapidly as possible with the work now going forward in the Cooperative Fiber Commission, and that any tendency on the part of either of those agencies to reduce their support of that Commission be opposed as strongly as possible by ARA.

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[3] Presumably Robert R. Peterson.

[4] Claud L. Horn, Head, Research Development Division, Foreign Agricultural Service.

When the decision of ODM has become final, through the medium of a letter[5] from Mr. Flemming addressed to Secretary of Agriculture Benson, an airgram[6] will be sent to our Embassy at Habana setting forth that decision and the reasons given by ODM, and requesting the Embassy to inform the Cuban Government thereof and at the same time explain our continuing interest in the Cooperative Fiber Commission. It will be submitted to you for prior approval.[7]

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[5] No such letter was found in Department of State files.

[6] Not identified.

[7] In a letter dated Aug. 20, 1953, Assistant Secretary of Agriculture John H. Davis informed Assistant Secretary Cabot that interested Government agencies had concluded that it was inadvisable to continue the kenaf fiber purchase program, because the program had accomplished much of its original purpose of demonstrating the feasibility of producing kenaf fiber in the Western Hemisphere for use in emergencies (837.232/8–2053).

737.5 MSP/7–1453

The Ambassador in Cuba (Beaulac) to the Department of State[1]

CONFIDENTIAL HABANA, July 14, 1953.

No. 99

Subject: Quarterly Report on Operation and Status of Programs Under the Mutual Security Act of 1951.

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[1] Drafted by Ambassador Beaulac.

Economic and Political Conditions.

The Cuban Government which took office through force on March 10, 1952 has maintained order but has failed to win substantial political support. Outside of President Batista's own party, which is not one of the most important political groups, and outside the armed services, the Government has little organized support. The opposition, moreover, has made some progress toward uniting its forces. A continuous war of nerves is being carried on against the Government and predictions of rebellion and disorders are freely made.

The political difficulties of the Batista regime have been increased by a sharp decline in Cuba's economy due to a world sugar surplus which developed shortly after the Government came into office. The Government has been obliged to discharge a large number of employees, to decree reductions in salaries of all remaining employees, and otherwise to effect budget economies. Despite these adjustments, it will probably be impossible for the Government to balance its budget during the present year.

The Batista Government is friendly and cooperative toward the United States and the military services are cooperative, with the limitation that in existing circumstances their principal interest and effort is to maintain and if possible improve the Government's domestic political position and their own political position.

Point Four.

Cuba's economic development has been retarded principally by corrupt and demagogic government and by nationalistic and restrictive laws and practices which discourage foreign and domestic private capital from making the contribution they otherwise might be willing to make.

In the circumstances, our Point IV program in Cuba has been small and has been directed at objectives of immediate as well as long-range importance to the United States as well as to Cuba.

The most important project is the Cooperative Fiber project, which is aimed at the development of the kenaf industry.

Spurred by war conditions which threatened the supply of bagging material from the Far East, a cooperative fiber program between the United States Department of Agriculture and the Cuban Ministry of Agriculture was launched in 1943. In 1951 it was made a cooperative Point IV project. Technical direction continued under the United States Department of Agriculture. During the period of the project's existence kenaf varieties have been developed, adaptable to Cuban conditions, which have a high per cent of good quality fiber. They are also comparatively resistant to disease. Decorticating methods and machinery have been developed and under test have demonstrated the feasibility of mechanizing the extraction of kenaf fiber.

On the basis of the above developments and encouraged by a fiber purchase program of the United States Government, private industry invested heavily in decorticating installations during 1952. The United States Government has now abruptly discontinued its fiber purchase program, and the prospect is that much of the private capital invested will be lost.

The cooperative kenaf program is given great importance by the Ministry of Agriculture. The Cuban Government recognizes the value of a local source of bagging fiber, as Cuba's needs alone approximate 110,000,000 pounds annually, which would require 110,000 acres to grow the fiber and the labor of 10,000 workers for a period of three months annually.

The three months during which workers would be employed in the kenaf industry occur during the sugar industry's "dead season", and the kenaf industry would therefore help very importantly to overcome the serious seasonal unemployment in the sugar industry.

Upon the request of the Cuban Government, the Cooperative Fiber Program (not the fiber purchase program), was recently extended under agreement for a period of two years (June 23, 1953 through June 30, 1955). This will provide for continuation of technical assistance.

On June 29, 1953, two additional agreements which incorporated extending technical aid to Cuba were implemented through the completion of an exchange of notes.[2] Under these agreements we will furnish mining engineers and geologists for the purpose of the location and development of minerals that are in short supply in the United States.

Military.

Modest grant aid continues to be given to the Cuban Air Force and Navy. The Air Force, which appears to be particularly favored by the Cuban Government in the way of funds, has made commendable utilization of the aid given. The amount of cooperation which the Navy is prepared to give is not so clear. The difficulty there appears to be a shortage of funds and the circumstance that under existing political conditions naval vessels tend to be retained in ports for domestic political reasons. Likewise, improvement in Navy organization is made difficult or impossible because of mutual suspicions within the Navy due to political and other circumstances.

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[2] The referenced notes, dated Mar. 31, June 27 and 29, 1953, entered into force on the latter date, were transmitted to the Department of State under cover of despatch Totec 32, dated July 6, 1953, not printed (837.00 TA/7–653).

Because of the unsatisfactory political situation, our military aid continues to be modest and to be extended in the most discreet manner possible. Our armed services are enjoined to give the least possible publicity to the aid they are giving the Cuban armed services. Such things as the exchange of decorations among military officers of the two governments, and other public demonstrations of solidarity between the armed forces of the two countries which are capable of giving Cubans the impression that the armed forces of the United States sympathize with the existing intervention of the Cuban military in the politics of the country, should be enjoined.

Because of the sharp decline in Cuba's economy and because Cuba is faced with a budgetary deficit, it is especially important that the United States should not ask the Cuban Government to make any expenditures which are not absolutely necessary. In particular, no unnecessary expenditures for the administration of the Mutual Assistance Security Act[3] should be indulged in and no personnel not needed for the administration of the Act should be assigned here by MSA. The present system under which the Chief of the Air Force Mission is Acting Chief of MAAG, and the Chief of the Naval Mission is Chief of the Naval Section of MAAG, is entirely satisfactory and should be continued in the interest of economy and of efficiency.

WILLARD L. BEAULAC

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[3] Apparent reference to the Mutual Security Act of 1951.

737.00/7-2553

Memorandum of Conversation, by Harvey R. Wellman of the Office of Middle American Affairs

CONFIDENTIAL [WASHINGTON,] July 25, 1953.

Subject: Political Situation and Possible Political Settlement in Cuba

Participants: Ambassador Concheso
Mr. Wellman, MID

Ambassador Concheso argued that the proposition of Dr. Cosme de la Torriente for a restoration of the 1940 Constitution which he admitted had considerable popular support, would be impossible legally and constitutionally. He contended that a constitution can be imposed in one of two ways, namely (1) by a constitutional assembly elected by the sovereign people, and (2) by a *coup d'état* which imposes a constitution by the authority of force. He said that while the Batista Government had the authority to destroy the Constitution of 1940 and to impose a new constitution, neither it nor the Supreme Court had the authority (the *poder constituente*) to restore the 1940 Constitution.

Ambassador Concheso expressed the opinion that the Supreme Court would deny the appeal against the 1952 Constitutional Statutes after permitting Zaydin,[1] who is arguing the appeal, to talk as long as he wished against the Batista Government.

The Ambassador referred to President Batista's plan to have partial elections in June 1954 and thereafter to have a plebiscite on the 1940 Constitution. He said that it was possible that Batista might change this plan and have at the same time both general elections and a plebiscite on the Constitution.

The Ambassador expressed doubt that it would be feasible to establish a "neutral" provisional government to supervise the elections. He questioned whether any individual or group in Cuba is neutral. He observed that Batista has a very good record for fair supervision of elections and abiding by the result though it might be adverse to him or his party. Ambassador Concheso acknowledged that the present governmental situation is a temporary one and that Cuba must return to democratic government since the genius of the Cuban people requires it.

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[1] Apparent reference to Ramón Zaydin, Cuban Minister of Commerce until Mar. 7, 1952.

737.001/7-2553

Memorandum of Conversation, by Harvey R. Wellman of the Office of Middle American Affairs

CONFIDENTIAL [WASHINGTON,] July 25, 1953.

Subject: Communist Influence in Cuba

Participants: Ambassador Concheso, Cuban Ambassador
Mr. Wellman, MID

Mr. Wellman referred to the adverse publicity which the Batista Government had received in *Newsweek* as a result of the election of five communists to the directorate of the Tobacco Workers Federation. He told the Ambassador that the political opposition to President Batista had alleged that there are communists in the Cuban Government and that it is under communist influence. He told the Ambassador that this had provoked inquiries from members of the United States Congress, in reply to which the Department had pointed out the evidence of anti-communist attitude and activity of the Cuban Government.

The Ambassador expressed interest in the publicity in *Newsweek*. He commented that the sindical elections under Batista are free, whereas there was a totalitarian control of labor unions under the *Auténticos*.

The Ambassador said that he would explore while in Cuba the possibility of promulgation of the anti-communist law which has been under consideration. He recalled that he had obtained from the Department copies of United States legislation and expressed the opinion that it could not serve as a pattern for Cuba. He observed that it would be necessary under Cuban law to identify ("typify") the activity or affiliation and not be sufficient to stipulate that it is illegal to plot the overthrow of the government by force or violence. The Ambassador said that he had sent to the Cuban Government a draft project of law which he had prepared. He expressed the opinion that the law could provide that a communist could not be a member or officer of a labor union. He declared that there would be more difficulty in eliminating communists from education, particularly from teaching in the public schools. He said that while many communists in the field of education are well known, e.g. Marinello,[1] others are not known. He also observed that an attempt to have Marinello and other communist teachers dismissed because they are communists would provoke a mixed reaction. He said that some might criticize such action as another example of the "Batista tyranny".

The Ambassador acknowledged that reports of current activity by communists in positions in the Ministries of Labor and Education should be looked into. He pointed out, however, that many Cubans who were communists or affiliated with the communists when relations were good with Russia are among the strongest anti-communists now.

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[1] Apparent reference to Juan Marinello, President, *Partido Socialista Popular* (Popular Socialist Party).

737.00/7-2553

Memorandum of Conversation, by Harvey R. Wellman of the Office of Middle American Affairs

CONFIDENTIAL [WASHINGTON,] July 25, 1953.

Subject: Revolutionary Activities of Cuban Exiles in the United States

Participants: Ambassador Concheso
Mr. Wellman, MID

Ambassador Concheso said that after he had made arrangements at the suggestion of President Batista to return to Cuba on July 27, he had received a cablegram[1] from the Minister of State, who did not know of his plans, also requesting that he return on that date. The Ambassador said that he thought the instructions from the Minister of State might be related to the seizure by the Cuban Navy in Habana during the past week of arms and munitions brought into Cuba from the United States. He said that his Naval Attaché had reported this seizure to him.

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[1] Not identified.

The Ambassador said that President Batista was surprised at the freedom which Prio and his associates have in the United States. He recalled that he had been unofficially in contact with the Department of State regarding the activities of the Cuban exiles subsequent to the Dallas and Forth Worth incidents and the Mamaroneck arms seizure. He was therefore aware of the action and investigations of United States law enforcement agencies.

Since the Ambassador had referred to United States obligations to enforce its neutrality laws, Mr. Wellman observed that the United States Government also must be careful not to bring legal action against a distinguished ex-President of a friendly country in the absence of clear proof of violation of United States laws. Ambassador Concheso said that he recognized this and observed that he had not been asked to make any official representations to the Department of State on this matter.

Ambassador Concheso expressed the conviction that Prio is supplying the funds for the purchase of arms and munitions and also for recruitment. Since the Ambassador referred to the Caribbean Legion[2] in this connection, Mr. Wellman observed that there appears to be no evidence that any considerable group of persons has been recruited either in Mexico or in adjoining countries for an expedition against Cuba.

Ambassador Concheso expressed the opinion that Prio was crazy (*loco*) in wanting to bring about a "Bogotazo" in Cuba.[3]

Ambassador Concheso stated that the recent visit of ex-President Arevalo to Cuba where he saw President Batista had caused concern to the Governments of Nicaragua, the Dominican Republic and Venezuela. He said that he had been with Ambassador Sevilla-Sacasa[4] when President Somoza had phoned the Ambassador expressing concern. He said that he would find out more about the meeting of Batista and Arevalo when he went to Cuba.

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[2] A group of political exiles and military men from countries in the Caribbean area with the alleged aim of overthrowing certain dictatorial governments in the area.

[3] Former Cuban President Prio Socarrás was arrested by U.S. authorities in 1954 for allegedly violating neutrality laws by conspiring to export arms to Cuba. Documents pertaining to this subject are in files 437.1183 and 737.0111 Reg. for 1954.

[4] Nicaraguan Ambassador to the United States.

737.00/9-153

Memorandum of Conversation, by John L. Topping of the Office of Middle American Affairs

CONFIDENTIAL [WASHINGTON,] September 1, 1953.

Subject: Political Situation in Cuba

Participants: The Under Secretary
Dr. Aurelio F. Concheso, Ambassador of Cuba
Mr. John L. Topping, MID

Ambassador Concheso stated that the attempted revolution at Santiago de Cuba on July 26, 1953[1] had strengthened the Government's position since it had shown that the armed forces are solidly behind the Government, which would handle promptly and efficiently any attempted revolution. He said that a portion of the opposition to the present Government was prepared to participate in elections, but that another portion, headed by deposed Carlos Prío and his adherents, had thus far preferred to undertake insurrectionary activities. He added that the attempt at Santiago de Cuba had not been directly connected with the Prío group, but that Prío had supplied money for the arms used in that effort.

In response to an inquiry from General Smith whether the Cuban Government now felt sufficiently secure to undertake a return to constitutional government, the Ambassador stated that constitutional guarantees would be restored in about four weeks and that the Government would proceed with its plans to hold elections for Congress in June 1954.

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[1] Documents pertaining to the abortive uprising are in file 737.00 for 1953.

737.001/9-153

Memorandum of Conversation, by John L. Topping of the Office of Middle American Affairs

CONFIDENTIAL [WASHINGTON,] September 1, 1953.

Subject: Cuban Government Plans to Control Communism

Participants: The Under Secretary
Dr. Aurelio F. Concheso, Ambassador of Cuba
Mr. John L. Topping, MID

Ambassador Concheso had just returned from a visit to Cuba, where he had discussed this matter with General Batista. He referred to a previous conversation[1] with the Under Secretary on the subject.

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[1] Reference uncertain.

The Ambassador stated that Cuba's new Public Order Law established control of communist activities in Cuba. (The Ambassador mentioned the "third sentence" of this Law. Presumably, he referred to the Public Order Law contained in Decree 997, published on August 7, 1953, Articles 2 and 3 of Chapter I of which contain wording making overt or covert propaganda of various kinds, including communism, illegal.) The Ambassador added that the Cuban Government planned to introduce a resolution to control communist activities at the Tenth Inter-American Conference scheduled to be held at Caracas in 1954.[2] (The Ambassador first said that the resolution would be "against" communism, and later said it would be intended to "outlaw" communism.) He stated that he expected that Guatemala would oppose such a resolution. The Under Secretary concurred in this view, pointing out that it was uncertain whether Guatemala would attend the meeting, and adding that such a resolution would have a greater chance of success if support for it were obtained in advance of the Conference. The Ambassador said that he felt sure that there would be considerable support, mentioning specifically Brazil.

The Ambassador continued that the recent changes in the Electoral Code would effectively prevent the Communist Party from participating in the elections scheduled for June 1, 1954. (The Electoral Code as modified by the present administration in Law-Decree 723 of February 27, 1953, requires in Article 41 that a party registered to participate in the elections must obtain four percent or more of the total of registered voters in the country. This will make it difficult for the Communist Party to qualify.)

The Under Secretary expressed pleasure at the information supplied by Ambassador Concheso. He said he had long felt that Batista was a realistic and intelligent person, who was fully aware that it was impossible successfully to compromise with or to attempt to use communism.

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[2] Documentation concerning the conference, which was held at Caracas, Mar. 1–28, 1954, is printed on pp. 264 ff.

MID files, lot 56 D 569, "Sugar Act"

The Secretary of State to the Secretary of Agriculture (Benson)[1]

CONFIDENTIAL [WASHINGTON, June 4, 1954.]

DEAR MR. SECRETARY: I am seriously concerned to learn that

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[1] The source text, which is neither initialed nor signed, was drafted by Paul E. Callahan of the Agricultural Products Staff, with the assistance of Mr. Wellman; the file copy, presumably a copy of the signed original, dated June 4, 1954, was not found in the Department of State files (811.235/6–454).

United States sugar producers are advocating that the Sugar Act,[2] which has run less than two years of its four-year extension be reopened to increase mainland cane and beet sugar quotas by 225,000 tons and to give domestic areas a 55 percent share in future increases in United States consumption requirements. These modifications would increase the participation of domestic areas almost entirely at the expense of Cuba. As you will recall, beginning only last year domestic quotas were increased by 176,000 tons and the percentage participation of full-duty countries was trebled, with a corresponding reduction of the participation of Cuba in this market.

The proposal of domestic sugar interests seems inconsistent with the understanding when the Sugar Act was last extended that quotas would not be changed during the four-year period of its extension in order to give foreign producers assurance of a stable United States market for a definite term and Cuba in particular the benefit of increases in United States consumption.

This loss was an attempt to compensate Cuba for the loss of approximately 240,000 tons of our market, and even this benefit would be lost if the Act is now further amended as proposed.

The proposal of the domestic sugar producers if adopted would seriously injure the Cuban economy, which is already suffering from severe curtailment of sugar production, greatly reduced exports and lower prices. It would inevitably be followed by decreased United States agricultural and industrial exports to this sixth best United States market and possibly by exchange controls and import restrictions. It would be inconsistent with our cooperation with Cuba to obtain an international sugar agreement, and bitter repayment for Cuba's effective efforts, which United States producers have commended, to stabilize the sugar market. It would seem to ignore the fact that Cuba has been a reliable expansible source of sugar in both war and peace, a strategic concept which should not be jeopardized. Finally the proposed reduction of Cuban participation in our sugar market might easily tip the scales to cause revolution in Cuba, and would certainly increase instability and promote anti-American feeling and communist activity in an area of great strategic and economic importance to the United States.

The Department of State consequently opposes the proposed modification of the Sugar Act as prejudicial to our relations with the Republic of Cuba and inimical to the preservation of the important strategic and economic interest of the United States in Cuba and the entire Caribbean area.[3]

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[2] Reference is to the Sugar Act of 1948 (Public Law 388), approved Aug. 8, 1947; for text, see 61 Stat. 922. The Sugar Act was extended and amended in Public Law 140, approved Sept. 1, 1951; for text, see 65 Stat. 319.

Sincerely yours, [JOHN FOSTER DULLES]

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[3] In a reply dated June 18, 1954, Secretary Benson stated that Secretary Dulles' letter provided helpful guidance for the Department of Agriculture with respect to the conferences it was holding with representatives of the sugar industry. He further stated that it appeared that progress was being made toward achieving full consideration of the matter prior to any legislative action concerning sugar (811.235/6–1854).

Eisenhower Library, Eisenhower papers, Whitman file, Dulles–Herter series

Memorandum by the Secretary of State to the President

CONFIDENTIAL WASHINGTON, June 7, 1954.

Subject: Proposed Modification of Sugar Act Unwise and Unfair.

The Ambassador of Cuba has requested, upon instruction from President Batista, an audience with you to bring to your attention the grave consequences which would result for Cuba if the Sugar Act should be modified as proposed by certain segments of the domestic sugar industry to increase United States quotas by 225,000 tons and to provide that domestic producers receive 55% of further increases in United States consumption.

The Sugar Act of 1951 provides that the Secretary of Agriculture shall estimate total United States requirements annually. It establishes a tonnage to be supplied by domestic producers and provides that the excess shall go to foreign producers. The quotas established in the 1951 Act caused a reduction in Cuba's annual exports to the United States of approximately 240,000 tons. Cuba accepted this reduction because the Act allocates to foreign producers any increases in United States consumption. She interpreted this as giving her a chance to recoup the 240,000 tons by which the 1951 Act reduced her sales. She was led to this conclusion by the position assumed by the spokesman for the domestic sugar industry who stated to the House Committee on Agriculture that the 1951 bill would settle the question of quotas for the four-year period ending in 1956 which it contemplates. This position of the United States industry spokesman was accorded much weight by the Cuban Government.

Without objection from the Bureau of the Budget the Department informed the Senate Committee on Finance of its opposition to pending bills to increase domestic quotas a total of 300,000 tons. The new proposal if adopted might easily tip the scales to cause revolution in Cuba and would certainly increase instability and promote anti-American feeling and communist activity in the Caribbean area. It would be a blow to the Cuban economy already suffering from severe curtailment of sugar production and lower prices. It would result in corresponding reductions in the considerable United States exports to Cuba and would jeopardize the concept of Cuba as a strategic sugar reserve.

It is recommended that when you receive the Ambassador of Cuba you assure him that if such a proposal for modification of the Sugar Act should be presented to the United States Government, the Administration will, in determining its position, give very careful consideration to the situation of Cuba and the effect of the proposal upon United States-Cuban relations.

JOHN FOSTER DULLES

Holland files, lot 57 D 295

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)

CONFIDENTIAL [WASHINGTON,] June 8, 1954.

Subject: Call of Cuban Ambassador on the President concerning Sugar Quota

Participants: The President
Dr. Aurelio F. Concheso, Ambassador of Cuba
Mr. Henry F. Holland, Assistant Secretary for Inter-American Affairs

The Cuban Ambassador handed the President a note[1] setting forth the basis for Cuba's plea that the Sugar Act not be amended to reduce Cuba's quota.[2]

The President said that he was keenly aware of the need for a strong trade with our friends, for the need of maintaining stable economies in friendly states. He assured the Ambassador that when he might be called upon to make any decision with respect to this matter he would not act precipitously, and that he would act with full realization of all of the implications for Cuba in any U.S. action.

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[1] In the referenced note, dated June 8, 1954, the Cuban Government stated, *inter alia*, that any reduction in Cuba's sugar quota prior to the expiration of the current Sugar Act would not only constitute a departure from past U.S. practice, but would result in a decrease in production to a level seriously endangering Cuba's economic and social stability (811.235/6–854).

[2] Ambassador Concheso also discussed Cuba's sugar quota with Secretary Dulles on June 2, 1954. The memorandum of their conversation, by Assistant Secretary Holland, dated June 2, indicates that the Ambassador made a similar plea concerning the reduction of Cuba's quota, and that the Secretary expressed his interest in the problem and the determination of the United States to insure careful study of all of its aspects (Secretary's Memoranda of Conversation, lot 64 D 199, "May–June, 1954").

837.00/6–1654

The Ambassador in Cuba (Gardner) to the Department of State

LIMITED OFFICIAL USE HABANA, June 16, 1954.
No. 1525

Ref: Department's A–488 of June 4, 1954.[1]

Subject: Proposed Subjects for Discussion With Economic Mission Which Cuba Plans to Send to Washington.[2]

The Embassy is undertaking immediate compliance with the instruction under reference as regards the contraventions of GATT.

In the meantime it respectfully suggests, for the Department's consideration, additional subjects appropriate to the anticipated discussions. These are as follows:

1. *Cuban Treatment of Debts as Distinct From Claims.*

The Embassy appreciates that, beyond limited employment of good offices, little can be done vis-à-vis assistance to American firms and entities holding obligations against the Cuban Government on a current account basis, even though some of those accounts date back several years. However, the Embassy feels that debts and overdue accounts with the government, as well as claims, should be discussed with a view to ascertaining the arrangements that are to be made for their settlement.

As of now, for example, a problem has arisen, technical in nature, but very discouraging for those holding past due government accounts. One example will suffice. To illustrate this point the Isle of Pines Steamship Company has overdue accounts with the Cuban Government of approximately 200,000 pesos. Of this approximately 26,000 pesos correspond to shipping services rendered to different departments of the Cuban Government during the present administration, by the Isle of Pines Company. The Cuban Government is now willing to issue "pagarés" for the two fiscal years 1952–1953 and 1953–1954 to a total amount of approximately 6,500 pesos. They state that the remainder of the approximately 26,000 pesos corresponds to obligations incurred by the respective government departments or entities in excess of funds budgeted to those entities for that purpose. This, of course, leaves the companies concerned in a serious situation with, as of now, apparently no recourse beyond requesting the government to make additional appropriations.

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[1] The referenced instruction indicates that two of the subjects the U.S. Government would like to have discussed when the proposed Cuban special economic mission arrived in Washington were the status of private American claims against the Cuban Government, and taxes and duties on Cuban imports from the United States which allegedly contravened certain provisions of the General Agreement on Tariffs and Trade (GATT) (837.00/6–454).

For text of the General Agreement on Tariffs and Trade, concluded at Geneva, Oct. 30, 1947, and entered into force for the United States, Jan. 1, 1948, see 61 Stat. (pts. 5 and 6), or TIAS No. 1700.

[2] The Cuban Government formally proposed to send a special economic mission to Washington to discuss economic matters of concern to the two countries on May 14, 1954. On May 28, 1954, the United States accepted the proposal (Instruction A–472, dated May 28, 1954, 837.00/5–2854).

Another case is that of the General Motors Acceptance Corporation, for the buses in service in the city of Santiago. The courts of Havana authorized re-possession. The officials of the city of Santiago did not permit it. The court order was subsequently reversed. The buses are still running and deteriorating rapidly without the operators making payments due. Treatment of this particular case will, of course, depend upon final decision of the General Motors Acceptance Corporation as to whether they wish us to include it or not. Since the Cuban proposal to send an economic mission is not public knowledge the Embassy will not approach the Company until it has word from the Department as to whether or not the Department feels that discussions of this particular type of case would be appropriate.

2. *Restrictions on Rice Imports.*

The Embassy does not feel that there is any prospect of the elimination of the individual licenses for the importation of rice. The Cuban position is: a) that under limited quotas import licensing is essential in order to avoid possibility of certain strong importers cornering the market on a first come first served basis. There are other practices, not appropriate for discussion, which also makes elimination of licensing improbable. The Department has already been informed of those practices.

Nevertheless the Embassy feels that it would not be inappropriate to put on the record our emphasis upon the necessity for prompt and orderly issuance of licenses at all times and the elimination to a degree possible of restrictions, within, of course, the quota limitations effective under the procedure established by the exchange of notes of December, 1952.[3]

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[3] The referenced notes, exchanged at Habana, Dec. 17, 1952, and entered into force on the same date, establishing a method for determining Cuba's annual rice import quota in connection with a GATT concession on rice, were transmitted to the Department of State under cover of despatch 963, from Habana, dated Dec. 17, 1952, not printed (837.2317/12–1752). The provisions of the December agreement required Cuba to announce each July 1 the basic quota of 3,250,000 quintals and also an initial supplementary quota equal to 66 percent of Cuba's estimate of its remaining import requirements for the quota year; on the following Mar. 15 the Cuban Government was obligated to announce for importation after Apr. 1 any additional quota needed to satisfy annual import requirements. Documents pertaining to the operation of the rice quota system are contained in file 837.2317.

3. *Hydrogenation Plant.*

This particular case[4] is at a standstill. The local company has the authority to go ahead. The executive is delaying and the Treasury at least has given verbal assurances to the Embassy that the local company will not be allowed to enjoy duty exemptions without deposit in guarantee of the full amount of those duties. This is their position even though the decree only requires a total guarantee of 25,000 pesos. As long as the situation remains as it is only uncertainty can prevail. The matter is a subject of constant irritation which may at any time serve as an instrument which could be used to advantage in attempted retaliation by interested parties in the United States, through efforts to reduce the U.S. import quota of Cuban sugar. The Embassy feels that in the forthcoming discussions the Cuban Government should be asked to take action and to expedite the final decision on this hydrogenation plant.

4. *Telephone Company.*

As the Department is aware the IT&T has been trying for years to obtain approval by the Cuban Government of new rates essential to the expansion program planned by the Company and essential to good service. It would seem appropriate for the Department to urge even to the point of obtaining an agreement with the Cuban Government that this matter will be expedited. In this connection, however, again not wishing to disclose the plans of the proposed mission, the Embassy has not approached the local manager of the Telephone Company. It suggests, if the Department agrees that this question is one appropriate, that it ascertain from the IT&T in New York its viewpoint as to whether the company desires this type of assistance at this time, or instruct the Embassy to do so here.

5. *Seatrain and Car Ferry Services.*

The renewal of the seatrain services to Cuba between New Orleans and Havana will depend upon certain actions of the Cuban Government. These actions would require as a minimum a revision of two decrees and one law-decree. These are Nos. 1 and 5 of January 2, 1947 and Law Decree No. 1304 of February 26, 1954. The ferry services can continue although not to their satisfaction, under the present regulations. The seatrains cannot renew its [*sic*] service without appropriate modifications. The Embassy believes that this is a subject appropriate to the anticipated conversations.

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[4] The case involved the application in early 1952 by the Compañía Empacadora de Productos Nacionales y Extranjeros, S. A., for certain tax exemptions and duty privileges under Cuban Decree 2144 of Aug. 7, 1945, in connection with the proposed establishment of a plant for the hydrogenation of edible fats. No final decision was made in the case by the Cuban Government in 1954. Pertinent documents are in file 411.3731.

6. *Air Express Services at Rancho Boyeros.*

This particular proposal is tentative and subject to further verification. On the basis of reports now at hand only two local trucking entities are allowed to accept air cargo at Rancho Boyeros. Individual importers are not allowed to send their own trucks or pick-ups. The charges for hauling air express from Rancho Boyeros to Havana, approximately fifteen miles, are reported to be substantially higher than those for shipment by truck or train from Havana to Santiago de Cuba, at the other end of the Island. The Embassy suggests that the Department may wish to consider whether or not, in view of its methods of operation, this type of monopoly in any way violates either our civil air agreement[5] or our trade agreement.[6]

7. *Henequen.*

The henequen industry is sick, and the cordage industry is in a condition almost as bad. Some years back, a persistent rise in world quotations on the fiber, all the way up to 28 cents per pound, c.i.f. New Orleans, at mid-1950 highpoint, prompted the Cuban henequen workers to press successfully for a 20 percent wage increase and subsequently for a second 20 percent increase, thereby creating a situation where they enjoyed wages, on a year-round basis, higher than those paid on a seasonal basis to the sugar workers. When the fiber quotation sagged back to below 11 cents during 1953, the workers fought strenuously for continued pegging of wages at that high level, but eventually the Government allowed the plant-operators to restore the wage scale which applied prior to those two increases and which had ruled when the fiber brought about 12 cents. In recognition of the fact that the fiber now nets New Orleans price of hardly 9 cents, the Government has decreed that the local cordage industry must pay a special fee of 3 cents on every pound of its domestic sales, to form a fund for the augmenting of wages to the henequen workers.

Actually, this "solution" of the henequen problem has not worked satisfactorily with the consequence that strikes and threats of strikes and labor troubles are very common to the industry. Subject, again, to a desire on the part of the International Harvester Company, the only American entity engaged in the henequen industry of Cuba, the Embassy proposes that in these discussions, Cuba be urged to find a quick solution on a sound economic basis to this problem.

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[5] For text of the Air Transport Agreement between the United States and Cuba, signed at Habana, May 26, 1953, and entered into force, June 30, 1953, see TIAS No. 2892, or 4 UST (pt. 2) 2837.

[6] Apparent reference to the exchanges of notes and memoranda, signed at Geneva, Oct. 30, 1947, entered into force on the same date, and operative Jan. 1, 1948, constituting an exclusive agreement supplementary to the GATT; for text, see TIAS No. 1703, or 61 Stat. (pt. 4) 3699.

8. *Interpretation of Air Agreement.*[7]

As the Department is aware the Cuban Government holds that lines certified to operate on route concessions granted in the air agreement are required to obtain prior permission before inaugurating changes in frequencies of services. In the case recently under consideration the Delta C&S were authorized, after hearings, to increase their service provisionally until February of next year, at which time the Cuban Government presumably reserves the right to force them to reduce their frequencies if study by the Cuban Government of traffic statistics covering the temporary period does not, again in the opinion of the Cuban Government, justify such extensive service. The points at issue are whether frequency is to be controlled: a) on an "a priori" or "ex post facto" basis and b) on a "unilateral" or "bilateral" basis. Possibly this will be decided before the mission goes to the United States. The Embassy feels, however, that if it is not decided by that time, it would be most appropriate for discussion then.

9. *Accountants.*

The problem regarding the right of foreign public accountants to practice their profession in Cuba is one of long standing.[8] It came to a crisis some time ago, temporarily solved when those operating here accused of violating the law were given a sort of amnesty. This did not solve the problem. The two Cuban organizations of accountants, one formed of those who are graduates of the University and the other of those who are not graduates, have both strenuously opposed any participation of foreign accountants. Nevertheless, particularly during the last year and one half, efforts have been made by this government to find a solution. A year ago it was believed that a fairly reasonable solution was found which would permit American accountants to operate here on a basis of reciprocity. For various reasons, principally political, this agreement in principle has never been translated into law. The Minister of Labor[9] has given assurances from time to time that this would be accomplished when the time is opportune. This constant delay will quite probably bring a crisis unless action is taken. In fact the recent death of the local manager of an American accounting company may force the issue when the company undertakes to send a replacement. The question is one that is aggravating and demanding of settlement and should in the Embassy's opinion be appropriate for discussions with the Cuban mission when it visits Washington.

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[7] Documents pertaining to this subject are in file 611.3794.

[8] Documents pertaining to this subject are in file 937.711.

[9] Carlos Saladrigas y Zayas.

10. *Pharmaceuticals.*

A) *Prices*—The Cuban Government, as is common in many places, fixes prices of pharmaceutical products. This Embassy has on numerous occasions urged action on requests for approval of increased prices in those cases where the cost in the United States has increased for just reasons. The Minister of Commerce has agreed on numerous occasions to take action on pending requests for these price adjustments. Not one has been adjusted. The Embassy feels that it is appropriate to insist that the Cuban Government take action in conformance with their own laws. Naturally the urgence is not going to be based on what price should be established but only that the pending and subsequent requests be acted upon with reasonable dispatch.

B) There are two other pending questions which may be appropriate to the discussions. One has to do with the insistence of the Ministry of Health that pharmaceutical importers employ a [*sic*] "responsible pharmacists", and the other has to do with a recent onerous modification in trade mark registration procedures. Depending upon developments the Embassy will inform the Department at greater length should it decide to submit these as appropriate for those discussions.

11. *Consolidated Railways.*

Consolidated railways, in which U.S. holdings are substantial have solicited without avail equal treatment with the Government-owned Ferrocarriles Occidentales de Cuba as regards labor laws. It would seem appropriate to the Embassy that insistence on equal treatment could and should be made during the proposed discussions.

12. *Inequitable Practices in Railway Purchases.*

It is now reported that the Ferrocarriles Occidentales, S.A., have accepted French bids on six diesel electric locomotives at a higher price for a lower powered engine than American offers. This, in the Embassy's opinion, represents not only unfair business practice, but probable violation of Article XVII of GATT. Regardless of the ultimate outcome of the present case, not yet certain, the Embassy believes that assurances should be obtained of fair competitive bidding on future contracts.

The Embassy will await word from the Department prior to formally informing the Foreign Office of the two subjects which the Department has already selected for discussion with the Economic Mission. It will do so informally upon the occasion of our discussion with them concerning contraventions of GATT.[10]

For the Ambassador:
HAROLD M. RANDALL
Counselor of Embassy for Economic Affairs

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[10] In Embassy note no. 489, dated Aug. 23, 1954, presented to the Cuban Foreign Office on the same date, the United States suggested a tentative agenda for the proposed economic discussions comprised of items 1, 2, 3, 8, 9, and 11 described in this memorandum, and also alleged Cuban contraventions of GATT. A copy of the Embassy's note was transmitted to the Department of State under cover of despatch 210, from Habana, dated Aug. 25, 1954, not printed (837.00/8–2554).

In Foreign Office note no. 1185, dated Sept. 22, 1954, the Cuban Government proposed an agenda made up of the following topics: U.S. sugar imports; U.S. purchase of minerals for stockpiling purposes; reduction of import duties on Cuban cigars, fruit, and other products; possible measures to increase diversification of the Cuban economy; promotion of tourism; and the negotiation of a double taxation treaty. The Cuban note was transmitted to the Department of State under cover of despatch 302, from Habana, dated Sept. 22, 1954, not printed (837.00/9–2254).

811.2351/6–2954

Memorandum of Conversation, by the Acting Deputy Director of the Office of International Materials Policy (Linville)[1]

OFFICIAL USE ONLY [WASHINGTON,] June 29, 1954.

Subject: Discussion Regarding Revision of the Sugar Act.

Participants: Dr. Hauge, White House
Mr. L. Myers, Sugar Branch, Dept. Of Agriculture
E—Mr. Waugh
APS—Mr. Linville
MID—Mr. Wellman

Dr. Hauge described the meeting[2] which the President had with Mr. Kemp,[3] representing the sugar industry, Senator Ferguson[4] (Michigan) and Senator Barrett[5] (Wyoming). Mr. Kemp said that the sugar industry had wished to get the Sugar Act revised during the current session of Congress. It had found some opposition in the Administration and had decided not to try to get Congressional action until next year. The industry wishes to carry on conversations with representatives of the Administration a little later in the year in an effort to reach an agreement on a bill to be placed before the next Congress. He feared that the Department of State would be unwilling to participate in such discussions, however, since it took the position that the present four-year act should not be altered during its term. He hoped, however, that this would not be the position.

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[1] Mr. Linville was also Chief of the Agricultural Products Staff.

[2] The referenced meeting took place at the White House on June 28.

[3] Frank A. Kemp, President and General Manager, The Great Western Sugar Company, Denver, Colorado.

[4] Homer Ferguson.

[5] Frank A. Barrett.

The President inquired as to whether there was a four-year "contract". Mr. Kemp said that there was not. The President asked Dr. Hauge to inquire regarding this issue.

The representatives of the Department of State and Agriculture told Dr. Hauge that there is no "contract" which would keep the legislation from being altered. The present Act, however, was worked out with the thought that its provisions would be in effect for four years. Mr. Linville said that one important reason why the State Department had been willing to go along with enactment of the present legislation was that, though the Act increased the quotas of some domestic areas, it would bring benefits to foreign suppliers as production expanded in the United States over a four-year period. He read from testimony given by Mr. Myers before the House Agriculture Committee when the present act was under consideration. Mr. Myers had said that the Committee would "find that the domestic areas all accept the proposed quotas for the period of the duration of this proposed extension" (1953–56). Mr. Myers gave a general confirmation of the importance which had been attached to the term of the legislation. Mr. Wellman observed that there had been a clear understanding in 1951 on which Cuba relied that the quotas would not be changed during the extension period.

Mr. Hauge indicated he would inform the President there is no legally binding agreement not to amend the Sugar Act for the four year period of its extension.

Mr. Waugh reviewed the conversations which he and Mr. Holland and other officials had had with representatives of the sugar industry on June 12,[6] and with Mr. Kemp and Mr. Shields[7] some days later.[8] He said that he and Mr. Holland had expressed objection to revision of the Sugar Act, which would seriously harm our relations with Cuba. He referred to the discussions regarding an exchange of letters between the Department of State and the sugar industry, and explained that the Department had been unwilling to make the commitment requested by the industry to consider proposals for new sugar legislation to be effective in 1955. He said that the Department would be prepared, however, to discuss the subject further with the sugar industry at any time.

Mr. Myers said that it should be recognized that there will be new legislation next year whether the Administration likes it or not. The only question is what kind of legislation will we have and can the Administration exercise a moderating influence on it. He said that we should face the facts and not get unnecessary blame for resisting the inevitable. He said he thought it would be possible to prevent any cutback in import quotas if we should agree that 50% of the expansion in United States consumption over 8.2 million tons should go to the domestic industry. He indicated Cuba could be prevailed upon to accept such a division.

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[6] A memorandum of the referenced conversation, by Mr. Wellman, dated June 12, 1954, is contained in MID files, lot 56 D 569, "Sugar Act."

[7] Robert H. Shields, president and general counsel, United States Beet Sugar Association, Washington, D.C.

[8] A memorandum of Mr. Holland's conversation with Messrs. Shields and Kemp, by Mr. Cale, dated June 22, 1954, is in file 811.235/6–1654.

Dr. Hauge said the main question at the moment seemed to be that of soothing the feelings of representatives of the sugar industry. He said the President had inquired as to whether it would be feasible to inform the industry that the Administration would make no statements prior to later discussions with the industry regarding its position as to modification of the existing Act. He asked if the domestic industry might be told the Government has determined neither that it is desirable nor that it is undesirable to amend the Sugar Act next year.

There was discussion of the possibility that the United States Government might be asked to make some future commitment with respect to sugar legislation. The proposed inter-American economic conference to be held at Rio de Janeiro in November[9] was mentioned in this connection. Mr. Waugh expressed the opinion that Department officers should guard against making any such commitments. Mr. Wellman expressed the opinion that such commitments as existed arise from the facts surrounding the amendment of the Sugar Act in 1951, and that it was more likely that assurances would be requested within the general context of the stability of United States foreign economic policy than with specific reference to United States sugar quotas.

It was agreed that Mr. Waugh would telephone Mr. Kemp, who is an old friend of his, and tell him that the Administration does not intend to make any public statement prior to discussions with the industry later in the year as to its position on revision of the Sugar Act next year. Mr. Waugh would also indicate the willingness of the Administration to discuss this problem with the industry later in the year in light of the conditions prevailing at that time. Mr. Waugh would ask Mr. Kemp whether he would like to have any further discussion at this time. Dr. Hauge would be willing to have a meeting with Mr. Kemp and representatives of interested Departments if Mr. Kemp thought this would be helpful. It was also suggested by Mr. Myers that relations with the industry could be improved at the meetings scheduled in Denver in July between industry and Department of Agriculture officials.

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[9] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly referred to as the Rio Economic Conference), held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation on the meeting, see pp. 313 ff.

837.00/4-2654

Memorandum by Harvey R. Wellman of the Office of Middle American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward)

CONFIDENTIAL [WASHINGTON,] July 26, 1954.

Subject: U.S.-Cuban Discussions on Economic Relationships.

In discussing this matter with Mr. Holland it is believed that you will want to examine the following considerations:

1. We have formally accepted the Cuban request for discussions in Washington. Copies of the Cuban note of April 26, of our reply and of the Cuban acknowledgement of our reply are attached.[1] Our acceptance of the Cuban proposal had the approval of the interested officers of the Departments of State, Agriculture and Commerce.

2. The Cubans are interested in "a joint and comprehensive study of all the economic problems that directly concern the relations of our two countries." This means, as Ambassador Concheso pointed out to me, that although the Cubans' principal concern will be sugar which comprises such a preponderant part of the Cuban economy, that will not be Cuba's exclusive concern. The Ambassador has emphasized that the Cuban Government is interested in the totality of economic relationships between Cuba and the United States.

3. It is recognized that discussions between Cuba and the United States which involve sugar will always be difficult for the Executive Branch because sugar legislation is a prerogative of the Congress. It is doubtful, however, that the timing for such discussions could ever be better than at present before definite decisions have been taken regarding long-term sugar legislation and while the extension of the Sugar Act still has two more years to run.

4. The domestic sugar industry has proposed revision of sugar legislation on a permanent basis. The Cubans are naturally interested in having their sugar participation in this market defined and assured by international agreement. Such an agreement would have to have the support of the domestic industry and the approval of the Congress. The proposal to place sugar legislation on a permanent basis opens up a better possibility for defining Cuba's sugar rights in this market by international agreement. If the agreement of Cuba, the domestic industry and the Congress could be obtained the only remaining difficulty would be the participation of other foreign countries.

5. The objective of the proposed discussions in the words of the Cuban note is "a joint and comprehensive *study*". This does not imply

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[1] No attachments found with the source text.

negotiations or the giving of commitments. Cuba knows, and if there is any doubt it could be made clear at the beginning of the discussions, that the Executive Branch cannot commit the Congress in the matter of sugar legislation.

6. The proposed discussions would enable the United States to determine what Cuban objectives are in their economic relations with the United States and possibly also what their minimum requests would be with respect to sugar participation. This information would be of assistance to us in our discussions later in the year with the U.S. sugar industry with respect to a legislative program for sugar.

7. These discussions would also provide us an opportunity to indicate to the Cubans at a high level in the context of a discussion of our total economic relations our dissatisfaction with their handling of many situations and their violations of international trade commitments which are the *quid pro quo* for Cuba's special position in this sugar market.

8. It is important that we be willing to discuss these problems with Cuba even though we may reach no settlements and may simply indicate what the problems are and their interconnections. It might be detrimental to U.S.-Cuban relations to inform them now that we do not wish to have the proposed Washington discussions because in view of the situation regarding sugar legislation we have no basis for negotiation. Such a reaction on our part might also damage the domestic political prestige of the Cuban Government which is an important consideration for President Batista at this time.

In reply to your inquiry, Ambassador Gardner arrived in Washington on July 23 and was planning to enter Georgetown Hospital for a complete check-up. Ambassador Concheso arrives in New York on August 16 but intends to go directly to Habana returning to Washington early in September.

MID files, lot 56 D 569, "Military"

Memorandum by William B. Connett, Jr. of the Office of Middle American Affairs to Henry A. Hoyt of That Office

SECRET [WASHINGTON,] October 25, 1954.

Subject: Cuban Requests for Military Equipment

Under MDAP

Aircraft

Four T–33 Jet Trainers. Application to purchase these aircraft was made under the MDAP program by the Cuban Government on April 5. It was approved immediately by the Department of State and forwarded to Defense which in turn transmitted it to the Air Force. Some difficulty developed over payment because the Cubans wanted to purchase the aircraft on credit. It was finally agreed that a letter of credit woud be acceptable, and, on the understanding that such a letter would be issued, two of the planes were sent to Cuba on June 6 in care of our Air Mission there. The letter of credit has not yet been issued and the Cubans have indicated no plans for paying for the aircraft. As a result they have remained in the possession of the Mission which is using them for training flights. The other two have been ready for shipment since June 15 but the Air Force is unwilling to release them until it receives at least an explanation regarding payment from the Cuban Government.

Recently the Air Force informed the Chief of the Air Mission in Cuba that unless the Cubans made some arrangements for payment for the four aircraft they would all be delivered to Peru which has been promised delivery of four T-33's next January. This threat was made, half in seriousness, with the hope that it would jog the Cuban Government into action. The Chief of the Air Mission in Cuba, on learning of the Air Force's intention in this regard, asked for a little more time, pointing out the difficulties of getting anything done during the pre-electoral period and during the absence of Ambassador Gardner. He added that he would make immediate efforts to persuade the Cubans to get off the dime.

Arms and Ammunition:

1. *One thousand carbines.* These were requested by the Cuban Government in a note dated July 28, 1953[1] which was forwarded, approved, by the Department to Defense. We have no evidence that the equipment was delivered although our records are incomplete.

2. *One thousand hand grenades.* Application for this item was made on March 12, 1954[2] from the Cuban Government. It was referred to Defense with the Department's approval on March 24, 1954 and was forwarded by Defense to the Army on April 6, 1954. We have no evidence that the delivery was actually made.

3. *Twenty thousand carbine cartridges.* This application was made by note from the Cuban Government dated July 1, 1954.[3] It was sent to Defense, approved, by the State Department on July 15, 1954. We do not know whether the order was filled.

4. *Fifty MA-1-A-1 Thompson submachine guns.* This item was requested by the Cuban Government in a note dated September 30, 1954.[4] It has been forwarded to the Defense Department with our approval.

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[1] Not printed (737.5 MSP/7-2853).

[2] Not printed (737.5 MSP/3-1253).

[3] Not printed (737.5 MSP/7-154).

[4] Not printed (737.5 MSP/9-3054).

Under the Military Assistance Program

Our Military Assistance Agreement with Cuba provides for both a Navy and an Air Force role. The Navy unit specified is five patrol craft, already a part of the Cuban Navy at the time the agreement was signed. The units specified for the Air Force are one light bomber squadron and one transport squadron. The Cubans already had most of the planes for these two squadrons; the Air Force earmarked five additional ones to be made available as grant aid. Two of these were delivered last June; the other three have yet to be delivered.

During the last couple of months the Cubans have asked for additional military grant aid under this program, consisting of:

1. *Air Force*: Equipment of an airborne battalion to be used in connection with the transport squadron specified under the agreement.
2. *Navy*:
    a. Complete repair at a U.S. base of two PBY–5A planes of the Naval Air Force.
    b. Acquisition and installation of Sonar and ASW (anti-submarine warfare) equipment in the patrol-escort vessels *Caribe* and *Siboney*.
    c. Acquisition of three mine sweepers, wooden hull, 136 feet in length, for training.

The above requests for additional military grant aid assistance have been transmitted to the Department of Defense where they are under consideration.

737.00/10–2854

Memorandum of Conversation, by the Director of the Office of Middle American Affairs (Newbegin)

CONFIDENTIAL [WASHINGTON,] October 26, 1954.

Subject: Cuban Problems

Participants: ARA—Mr. Holland
Ambassador Arthur Gardner
MID—Mr. Newbegin

In reviewing the political situation in Cuba, Ambassador Gardner stated that the future of Cuba depended upon whether Batista would be elected on November 1. He stated that Grau was "very bad medicine" and pointed out that there was an indictment against him for misappropriation of funds.

Mr. Holland asked the Ambassador his views with regard to the main economic problems of Cuba and any suggestions the Ambassador might have in connection with the forthcoming economic conversations, as well as arguments that might be used with Congress. Special reference was made to the manganese and sugar problem. Mr. Holland pointed out that there was little chance of our stockpiling Cuban manganese in exchange for agricultural products. The Ambassador concurred and dismissed this problem. With respect to sugar, the Ambassador said that perhaps one of the most effective arguments to be used in an effort to maintain Cuba's share of the U.S. market was that for every dollar of Cuban sugar which we do not buy Cuba would have that much less U.S. currency with which to purchase automobiles and other American products. He emphasized that the Cubans now had 2,000,000 tons of sugar which they could not sell and that this constituted a serious problem. Mr. Holland inquired about the $400,000 fund which the Cubans have set up for the purpose of conducting a campaign in the United States with a view to favorable action by the Congress. Ambassador Gardner indicated that the creation of this fund had originally been proposed by him. He added that it was his understanding the Cubans were contemplating employing two former U.S. Senators to conduct the campaign. Mr. Holland said that of course the Cubans should fight their own campaign but that they very definitely should not employ former Senators for that purpose, but should use experienced public relations agents. He then made the following comments:

1. With reference to the problem of restrictions on trade as regards Latin America, the problem is a simple one. The decision is going to be made by Congress and it will be based specifically on public opinion. The only thing that really matters is the views of the constituents of the individual Members of Congress. These were the people to be reached. The effectiveness of any approach would be far greater if the various interested groups representing sugar, other agricultural products, minerals, etc. would coordinate their efforts.
2. A big battle was in the making in connection with the Cuban sugar quota during the next Congress. He was willing to "sacrifice part of his hide", if necessary, but he very much wanted to know the Ambassador's ideas. (The Ambassador said that he would write him within a few days after his return to Habana on October 30.)
3. Senator Malone[1] was going to visit Cuba and there was every likelihood that he would encourage the Cubans in the belief that they could get an agreement with respect to the stockpiling of manganese. Ambassador Gardner should attempt to dissuade Senator Malone from making any statements which would give hope to the Cubans along this line.

Mr. Holland then said, while he intended no criticism on the political reporting from Cuba which had been of a high order, he felt that he should point out in his attempt to be helpful that the Department does not feel that it has sufficient information regarding the thinking of the top Cuban officials. He mentioned as an example the exceptional value of Ambassador White's detailed reports of his conversations which made him feel almost as though he had been present at the interview and that he knew intimately the reactions of the individual Mexican with whom White had been talking. He pointed out that it was time-consuming and bothersome to write such memoranda but that they were very helpful to the Department. In those cases where other members of the staff were present such memoranda could be prepared by them. Ambassador Gardner replied that he had not done reporting of this nature on his conversations with Batista because he was afraid that there might be a leak and he did not want to become involved in the Cuban political situation.

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[1] George W. Malone (R.-Nev.), Chairman, Minerals, Materials, and Fuels Economic Subcommittee of the Senate Committee on Interior and Insular Affairs. Between Nov. 22 and 30, 1954 Senator Malone visited Cuba, Jamaica, Venezuela, and the Guianas on a factfinding tour (033.1100 MA/11-2254).

Mr. Holland inquired whether Ambassador Gardner felt that the Embassy had a sufficiently broad base of contacts including all the principal phases of Cuban political and economic activity. The Ambassador stated that it very definitely did. The Ambassador expressed his view that the State Department did not know enough about what the people of Cuba thought of the U.S. Ambassador and that in contrast to previous Ambassadors he had devoted much of his time to cultivating the people themselves.

The Ambassador expressed his concern over the Department's action in transferring Messrs. Topping and Wellman[2] since they both knew Cuba and were thoroughly familiar with its problems. He said that the Embassy now felt that it did not know anybody here and was "on the end of the line"—that the people directly concerned should have more knowledge of Cuba. It was pointed out that Mr. Hoyt [3] had previously served in Cuba and it was hoped that an opportunity might be found not only for him and Mr. Connett[4] but also for Mr. Holland to visit Cuba before too long. Mr. Holland indicated that he might be able to visit Cuba some time in January.

Reference was made to the functioning of the USOM in Cuba. The Ambassador expressed himself strongly that it was undesirable that the FOA program be extended, stating that the Cubans themselves were not interested in an expansion of FOA activities. He also referred to his opposition to the Chief of Mission previously proposed by FOA, Mr. Hackney, on the grounds that he was too wealthy and too important a figure to be in charge of the relatively small Cuban operation. He expressed the hope that the Acting Chief, Mr. Johnston, would be permitted to remain in Habana.

Arrangements were made for the Ambassador to receive Mr. FitzGerald of FOA on Friday, October 29[5] with whom he could discuss the general FOA situation directly.

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[2] Mr. Wellman was detailed to the National War College in Paris, Aug. 15, 1954.
[3] Henry A. Hoyt, Officer in Charge of Caribbean Affairs, from Oct. 4, 1954.
[4] William B. Connett, Jr.
[5] No memorandum of the referenced meeting was found in Department of State files.

MID files, lot 56 D 569, "Technical Assistance"

The Ambassador in Cuba (Gardner) to Senator Bourke B. Hickenlooper

CONFIDENTIAL PERSONAL HABANA, November 22, 1954.

MY DEAR SENATOR: I refer to your letter of October 13[1] in which you gave background on the study which, pursuant to Senate Resolution 214 of the 83d Congress,[2] is being made by a special subcommittee of the Senate Foreign Relations committee under your chairmanship, regarding the effectiveness of our technical assistance and related programs. You request an expression of my views on the worth and accomplishments of these programs in Cuba, with particular reference to the seven specific points set forth in Section 2 of Senate Resolution 214.

Since your subcommittee is not going to find it possible to include Cuba among the countries to be given on-the-spot study, I am aware, of course, of the special responsibility which your letter places on me and hence I have arranged for Embassy appraisal of these programs to be thorough and objective. I trust that my findings, presented below, on your seven points, will be helpful.

1. Budget funds have been adequate in the past and appear to remain adequate for the future. The only phase of the program that shows any indication for a necessary increase in funds is that for training, due to a tremendous increase in enthusiasm on the part of Cuba for leadership training in the fields of labor and agriculture.

2. There has never been any duplication or confusion between the technical assistance programs in Cuba because all requests for technical assistance must be cleared through the National Economy Board of Cuba (Junta Nacional de Economía de Cuba), therefore, each program retains its separate identity. There is no active United Nations Program and the success of the program of the Organization of American States has been greatly assisted by the activities of the Point IV Program (IIAA).

3. United States agencies such as the Bureau of Mines, Geological Survey, and U.S. Department of Agriculture, have been exceptionally cooperative in making the present technical assistance program to Cuba a success. These agencies have done everything in their power to assist the present program. See also under item 6.

4. As the activities of Point IV have been principally in the field of agriculture, the cooperation of private agencies must be measured by the hundreds of farmers who are receiving advice from Cuban techni-

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[1] Not printed.

[2] For text of the resolution, adopted by the Senate on July 6, 1954, providing for a study of U.S. technical assistance programs abroad, see *Congressional Record*, 83d Cong., 2d Sess., vol. 100 (pt. 7), p. 9717.

cians trained in the United States. Local agencies, the activities of which are related to agriculture, such as fertilizer, insecticide and machinery companies, have been most cooperative in all phases of the training and demonstrating programs.

5. Cuba, in its limited capacity, has been 100% cooperative in the technical assistance program, mainly in the form of mutual assistance. They have always been willing to budget whatever money is necessary, but the actual money has not always been available immediately after the budget has been approved. However, the money is eventually available and Cuba continues to do its best under existing conditions to make the program a success.

6. In accordance with separate bilateral agreements which antedated the Mutual Defense Assistance Program (MDAP), the U.S. Army, Navy and Air Force Missions to Cuba furnish technical advice and assistance in the training of the corresponding branches of the Cuban Armed Forces.

Under MDAP, operations in Cuba of the Military Assistance Advisory Group (MAAG) are confined to the furnishing of certain military equipment to the Cuban Navy and Air Force. There is no separate MAAG staff in Cuba at the present time, and the Chiefs of the U.S. Air Force and Navy Missions are responsible for MAAG operations.

In addition, the Inter-American Geodetic Survey Group (IAGS), of the U.S. Army Engineers, furnishes technical assistance and equipment to the Cuban National Cartographic Institute in the latter's program for the mapping of Cuba.

Under the Mutual Security Program, there has been no extension of joint military-economic aid to Cuba.

Apart from conferences with the Ambassador and the Embassy Counselor on matters of policy, there is little direct liaison at working level between our three Service Missions and our FOA Mission because, except for the relatively minor activities cited in the next paragraph, their spheres of operation are parallel with no overlap.

At the request of the Cuban National Cartographic Institute, FOA has arranged for a number of technicians of the Institute to receive 2-month training courses at the IAGS school in the Canal Zone. Similarly, at the request of the Cuban Navy, FOA has arranged for three Cuban Naval Officers to pursue courses, mainly in Washington, devoted to meteorology, tides and currents, and tropical storms.

7. The administration of the program has been very effective in advancing the foreign policy of the United States in assisting Cuba to develop the Kenaf fiber industry. Disease resistant varieties have been established and a process developed to effectively extract the fiber from the plant. The Kenaf industry has reached the stage where it is ready to be taken up by private enterprise and has also achieved its

aim in establishing this fiber in the Western Hemisphere for national defense in the event of emergency. The program is now utilizing the same technicians that worked in the Kenaf program, to carry out further research work on other agricultural crops that Cuba is trying to establish in order to diversify.

Sincerely yours,

ARTHUR GARDNER

Current Economic Developments, lot 70 D 467

Extract From Current Economic Developments[1]

SECRET

WASHINGTON, November 23, 1954.

Issue No. 455

[Here follow sections on Japan's economic problems, a meeting of the ECE Trade Development Committee, and President Eisenhower's decisions regarding tariffs on tung oil and clothespins.]

US and Cuba Conclude Economic Discussions

A delegation from Cuba was in Washington November 8 to 17 to discuss with US officials[2] various matters concerning economic and commercial relations between the two countries. The talks, which were held at the request of Cuba, were designed to study the problems rather than to find definitive solutions at this time. Both delegations felt that this objective was accomplished and that the mutual understanding that was gained of the conditions facing each country will materially aid in eventual progress in arriving at solutions.

Issues Raised by Cuba

The Cubans were primarily interested in a more liberal share of the US sugar market. They claimed that the progressive reduction of Cuban participation in the US sugar market as provided in Sugar Act legislation has impaired the reciprocal feature of the 1934 US-Cuban treaty.[3] They said that the US has captured 80% of the Cuban import market by virtue of special preference accorded US products and claimed that now they have been denied a fair participation in the US sugar market. They stated that this loss of income, coupled with the growth in population, has made it increasingly difficult to maintain minimum economic conditions required for social and political stability. The delegation asked that Cuba be granted the right to supply 50% of the sugar consumption requirements of the US and that 22% of Cuba's sugar exports to the US be in direct consumption sugar as originally established in the sugar legislation of 1934. It further requested that the Cuban share in the US sugar market be regulated by an agreement which would give stability to the industry and complement the American domestic sugar market. The US delegation was impressed by the desirability of offering a more stable market in the United States for sugar from Cuba and other producers. It assured the Cubans that this problem would be given detailed study and that Cuba's vital interest in the American sugar market would be taken into account in future recommendations to Congress. However, it was pointed out that the Executive Branch cannot provide the necessary relief through administrative action and that it cannot commit the US Congress to any course of action.

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[1] *Current Economic Developments* was prepared twice a month during the period 1945–1974 by the Bureau of Economic Affairs (subsequently the Bureau of Economic and Business Affairs) of the Department of State for internal use as a background and policy guidance report for policy level officers.

[2] A list of the members of the U.S and Cuban Delegations which participated in the economic talks is printed in Department of State *Bulletin*, Nov. 29, 1954, p. 815.

[3] Reference is to the United States-Cuban Reciprocal Trade Agreement, signed at Washington, Aug. 24, 1934, and entered into force, Sept. 3, 1934; for text, see 49 Stat. 3559.

The Cuban delegation, pointing to the full cooperation Cuba gave the US during the war and to its strategic geographic position, requested appropriate measures by the US to make possible continued operation of Cuban mines, thus preventing unemployment. Minimum needs were stated as inclusion of Cuban manganese in the US stockpiling program, lowered duties on imports of iron barites, and expanded US purchases of Cuban copper. With respect to manganese, the US delegation explained that the emergency stockpile objectives have been filled; that long-term stockpile goals can be approximated by stocks already on hand; and, while the supplemental stockpile program has not yet been established, it will be based on an exchange of surplus US agricultural products for foreign minerals. It was explained that further duty reductions on imports of barites would be contingent on negotiations under the General Agreement on Tariffs and Trade. The US believes the Cuban copper industry will best develop through the initiative of private industry and pointed out that Cuba now participates in the US market on essentially equal terms with domestic producers. It was stated however, that there is a possibility some copper might be acquired for long-term stockpile purposes in exchange for surplus US agricultural products.

Requests were also made by Cuba to facilitate tobacco exports to the US and to seek ways and means of facilitating import into the US of Cuban fruits and vegetables, rum and other products.

In connection with the need to develop and diversify Cuba's economy, the Cuban delegation said that Cuba intends to modernize its customs tariff and that this will result in some increases which will be carried out within the framework of Cuba's international commitments and bilateral commitments to the US.

Under GATT Cuba continued for the United States the exemption from the Cuban 20% customs surtax on most imported products. In order to facilitate tariff negotiations with third countries the Cuban Government wants the US to relinquish this preferential exemption in order that it may place into effect a reduced surtax of 4% which would apply to imports of all products from all countries. The US is unwilling to agree to this surtax increase but our delegation replied that the US would be willing to consult with Cuba at any time with regard to tariff preferences enjoyed by the US in the Cuban market should the Cubans wish to eliminate such preferences on specific products in order to offer to third countries in trade agreements the same rates of duty as those enjoyed by the US.

Cuba stressed its need for tourism and asked for redress from discriminatory US federal tax applying to passenger fares between the Caribbean and the US and liberalization of present US legislation limiting the amount of duty-free import by tourists of cigars and alcoholic beverages. Our delegation explained that bills which would remedy the passenger fare situation had been presented to the last session of Congress but were not acted upon and it is expected that similar legislation will be introduced into the next Congress. It also stated that the US would consider the Cuban request for modification of the legislation so as to double the amount of cigars and alcoholic beverages that tourists are presently permitted to bring back to this country from Cuba.

The delegation asked that Cuba be included in the US offshore procurement program as a means of helping their depressed economy. The US delegation pointed out that the program is now limited principally to military goods and to purchases of a few non-surplus products such as fertilizers, and insecticides. Purchases of sugar are made by the CCC from time to time and the Cuban Stabilization Institute and Cuban Foreign Trade Bank receive notices of intention to purchase.

The Cubans mentioned the importance of promoting investment of American capital in their country and to this end inquired as to the possibility of negotiating a double taxation treaty. During the talks the US Treasury indicated that it was in favor of such negotiations which might take place as early as next January.

Matters Raised by the US

The discussions covered various Cuban import taxes and fees which are considered by the US to represent contravention of the General Agreement on Tariffs and Trade. The Cuban delegation reported that remedial action had already been taken on one of these items, that they considered that three of them were not in contravention of GATT and that they would investigate and try to take remedial action on the remaining matters.

The US pointed out that Cuba has made no effective settlement of various US private claims and debts totaling about $10 million. Of that amount some $1 million represents adjudicated items, part of which have been assigned by the claimant to the US Government on account of taxes. The Cuban delegation expressed the intent of the Cuban Government to arrange for prompt settlement of those claims which have been adjudicated by Cuban courts and explained the procedures established by Cuban laws leading to systematic liquidation of other categories of debts of the Cuban Government.

Another problem raised by the US related to the difficulties in operation of the rice agreement between the two countries which contains a procedure for fixing of the Cuban low-import quotas on rice, including announcement of such quotas by July 1 of each year. The Cuban Government announced its basic quota on July 1 but has not yet announced the preliminary supplemental quota, and this has caused substantial discontent in the US. The Cubans explained the domestic reasons which confront them in this regard and the US Interdepartmental Trade Agreements Committee agreed to discuss the Cuban request for modification of the procedure. The Cubans in turn, reiterated that their country would continue to develop its production of rice within the framework of its international obligations and give preference to imports of rice from the US at low rates of duty to the extent necessary to satisfy Cuba's import requirements. It expressed belief that Cuba's supplemental quota can be announced by February 1.

Other questions discussed with the Cubans included overtime pay of government officials in Cuban airports; discounts on payments to pensioners residing outside of Cuba; possible discrimination against Consolidated Railways of Cuba, in which substantial US capital is invested; and discrimination against established American industries in the case of a new hydrogenation plant which is seeking benefits which Cuban law provides for new industries.

MID files, lot 56 D 569, "Economic Talks in Washington—November 1954"

Memorandum by Henry A. Hoyt of the Office of Middle American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Sparks)

CONFIDENTIAL [WASHINGTON,] December 6, 1954.

Subject: Overall Effects of Cuban Economic Talks—ARA's Position Re Requests for Increased Quotas.

Despite the fact that we were not able to give the Cubans anything concrete during the recent economic talks, and despite the fears of many of us that the talks should not have been held, I believe that the overall effect, in so far as the Cubans were concerned, was a good one. I believe the Cubans felt it had been worth their while to come to Washington, that they were able to make their case known to a good number of government officials, and that they left reassured that their position would be given consideration by the Executive Branch when the Sugar Act comes up in Congress. From conversations I had with several of the Cuban delegates, including Ing. Lopez Castro and Ambassador Joaquin Meyer,[1] on the eve of their departure, I believe the Cubans who formed the delegation left with the feeling that everything possible had been done for them and that their mission, given its limited scope, was a success.

In spite of the foregoing we should not be lulled into a feeling that the matter will rest there. We know that the domestic sugar producers as well as the other foreign producers are going to make a strong bid for increased quotas at the expense of Cuba when the Sugar Act comes up for consideration. If Cuba's quota is cut then I believe we are likely to have such a severe reaction from the Cubans that our relations with that country could drop to the lowest point in years. This will be true particularly should Cuba's quota be reduced because of increased allotments to the full duty countries.

Should the Cuban quota be cut, I fear that the overall effect of the recent economic discussions will prove to have been detrimental rather than helpful. Despite the Cubans' realization that we could not give them any concrete assurances, they went away from the recent talks believing they had a friend at court (the State Department). If their quota is cut the Cubans will point to these talks as an illustration of how the presentation of their problems was ignored or at least not given much weight.

Without going into details of the merits of the case, I believe we can agree that a reduction in Cuba's sugar quota will add greatly to the country's serious economic problems. The Batista Government would have a hard time explaining any further sugar cuts. The communists and the opposition political groups are already strong and are just waiting for an opportunity to further criticize the Batista Government. There is no more vulnerable spot than sugar and Batista might find it necessary to make a change in his cooperative attitude toward the U.S. in order to quiet domestic criticism.

Given the above, I do not think it is too early to start considering what ARA's position will be when the Sugar Act comes up for discussion. Since Peru, Panama, Dominican Republic, Haiti and Mexico are among the full duty countries which will be requesting increases, at Cuba's expense, we have a problem right in our own area. We can expect strong demands from these countries for increases. The Dominican Republic and Haiti have already indicated they feel entitled to increases and that Cuba's privileged position should be abolished.

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[1] Ambassador in Charge of Economic Affairs, Cuban Ministry of State.

While the Cubans are of course hopeful that the Department will take a strong stand in their favor against the requests of the domestic producers, I believe the Cubans realize that it is largely up to them to wage the battle against the domestic producers and gain Congressional support for Cuba's position. On the other hand, I believe the Cubans are counting almost entirely on the Department to support their case against the demands of the full duty countries.

Recommendation

After consultation with officers in MID and realizing that there are a lot of factors and arguments which cannot be brought out in a memorandum like this, MID makes the following recommendations

1. ARA take a strong stand against any change in the Sugar Act until its expiration on December 31, 1956.
2. Oppose increases in domestic quotas at Cuba's expense.
3. If there is any reduction in Cuba's quota because of increases granted to domestic producers, *oppose any further reduction of Cuba's basic quota to satisfy the demands of full duty countries.*
4. Support the thesis that any increase granted to full duty countries (if Cuba's quota is cut because of increases to domestic producers) be sought through adjustments in "increased consumption" quotas, rather than a reduction in Cuba's basic quota.
5. That ARA officers meet at an early date with officers from E and from Agriculture to discuss these problems.

The foregoing is controversial but it is felt that it is necessary to "get the ball rolling", and perhaps these recommendations can serve as a basis for the first discussions.

DOMINICAN REPUBLIC

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND THE DOMINICAN REPUBLIC[1]

739.5 MSP/1-2552

The Deputy Secretary of Defense (Foster) to the Secretary of State

TOP SECRET WASHINGTON, January 25, 1952.

DEAR MR. SECRETARY: Reference is made to Mr. Matthews' letter of 21 December 1951[2] suggesting that the Department of Defense give consideration to the possibility of approaching the Dominican Republic on a general basis regarding military cooperation for hemisphere defense, and that the United States Ambassador to that country be authorized to discuss the matter, with appropriate Dominican officials, so as to facilitate any future negotiations.

The Joint Chiefs of Staff have reached the following conclusions with which I concur:

a. At the present time the Department of Defense is formulating the Mutual Security Program for FY 1953. Consideration is being given to the assignment to the Dominican Republic of hemisphere defense tasks. However, because of the many factors which may preclude the granting of military aid to the Dominican Republic, it would be undesirable at this time to give rise to expectations that we would be unable to fufill at some future time.

b. The desirability is recognized of making a general approach regarding military cooperation with the Dominican Republic at this time. However, it is believed that the discussion of this matter should be along the lines contained in your airgram as dispatched to certain American diplomatic officers, dated 18 December 1951,[3] rather than along the lines suggested by Mr. Matthews. Specifically the following comments reflect the Department of Defense position with regard to Mr. Matthews' letter:

(1) While it is recognized that the Dominican Republic is important to the defense of the Antilles area, conversations should not be held

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1367 ff.

[2] Printed *ibid.*, p. 1389.

[3] Not printed (720.5 MSP/12-1851).

which could be construed to indicate that the United States is considering the extension of grant military aid to the Dominican Republic.

(2) The United States should not offer to make a survey of the Dominican armed forces and facilities unless and until the United States is prepared to furnish grant aid to that country. Sufficient information can be obtained to make such preliminary surveys as are necessary without a formal survey. At the present time, the United States is not prepared to broaden its already extended grant aid commitments.

(3) All possible consideration is now being granted to Dominican requests for reimbursable assistance. No intimation should be made to raise false hopes for assistance beyond that now being granted.

(4) Although consideration is being given to possible ways in which Dominican arms production facilities might be used in a collective defense effort, the Dominicans should appreciate that they must compete with other countries for material and contracts.

Sincerely yours,

WILLIAM C. FOSTER

739.5 MSP/2–152

The Ambassador in the Dominican Republic (Ackerman) to the Department of State[1]

TOP SECRET
No. 462

CIUDAD TRUJILLO, February 1, 1952.

Ref: Department's Top Secret Instruction No. 39 of January 28, 1952.[2]

Subject: Dominican Position in Hemisphere Defense Plans.

In view of the information received from the Department to the effect that the Cuban Government might be approached on January 29 concerning its participation in hemispheric defense under the authority conferred in the Mutual Security Act of 1951,[3] I discussed with Mr. Mann, during his short visit here, the desirability of my approaching President Trujillo to inform him of the noninclusion of the Dominican Republic at this time in these negotiations prior to announcement of the commencement of discussions with Cuba. Mr. Mann agreed with me on the importance of timing our approach. As he had a copy of a draft reply[4] by the Defense Department to Deputy Secretary of State Matthews' letter of December 21, I had sufficient information concerning the decisions of the two departments to permit me to make such an approach without awaiting the Department's top secret instruction of January 28.

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[1] Drafted by Ambassador Ackerman.

[2] The referenced instruction authorized Ambassador Ackerman to discuss informally with Dominican authorities hemisphere defense plans with respect to the Dominican Republic, and to express the hope that the Dominican role in these plans could be enlarged (739.5 MSP/1–2552).

[3] Public Law 165, approved Oct. 10, 1951; for text, see 65 Stat. 373.

[4] Presumably a draft copy of Deputy Secretary of Defense Foster's letter dated Jan. 25, 1952, *supra*.

President Trujillo granted me an interview on January 29 at which time I informed him that the purpose of my call was to keep him posted regarding developments in our planning for hemisphere defense. I mentioned that during my recent visit to Washington a group from the Department of State including Messrs. Mann, Hauch[5] and other advisers had accompanied me on a visit to the Pentagon to discuss with representatives of the three branches of the Armed Forces who were acting as advisers to the Joint Chiefs of Staff on hemisphere defense the position of the Dominican Republic in those plans. I pointed out that in the Mutual Defense Act of 1951 Congress had approved the allocation of 38 millions of dollars for expenditure in Latin America for military defense and that groups of Defense Department representatives had recently begun negotiations in several countries of Latin America for programs designed to improve their defense forces and prepare the way for integration into the general scheme of coordination with the efforts being made by the United States in this connection.

At that meeting the officials of the Armed Forces maintained that the funds appropriated by Congress for these purposes were extremely limited for the task in hand and that the Joint Chiefs of Staff were faced with the problem of determining where they might best be employed in order to insure strongest possible hemispheric defense. As many of these countries were large suppliers of important strategic materials and some of them had long coast-lines to defend, emphasis had to be given to the importance of these considerations in reaching an overall conclusion. It had therefore been decided that in the allocation of grant aid from the small sums available for the present fiscal year, Brazil would be allotted the largest sums, and that Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Cuba would also participate. Although the Defense Department group were sympathetic to the State Department's recommendation that the Dominican Republic also participate in this program, they could not give us affirmative assurances until after further consideration of the Joint Chiefs of Staff.

I told the President that the Secretary of Defense[6] had now informed the State Department of its inability to include the Dominican Republic in the grant aid program because of the limited funds available and the uncertainty as to the funds which may be available during the next fiscal year, despite the fact that the Defense Department recognizes that the Dominican Republic is important to the defense of the Antilles area. Although I did not wish to hold out false hopes for the future, it is not unlikely that as plans for hemisphere defense develop the United States might make available grant aid to the Dominican Republic in furtherance of the hemispheric defense program. Grant aid, however, involves certain definite commitments on the part of recipients which undoubtedly would require them to make substantial additional expenditures in effecting the desired coordination. I also remarked that the Defense Department has informed the State Department that all possible consideration is now being granted to Dominican requests for reimbursable assistance and that this would continue to the extent compatible with the United States' defense requirements and the existing critical supply situation.

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[5] Charles C. Hauch, Office of Middle American Affairs.

[6] Robert A. Lovett.

In view of the relations now existing between this country and Cuba I emphasized the strategic importance of Cuba by reason of its proximity to the United States which led to the inclusion of that country in the program. The President remarked that he could appreciate that military considerations made it necessary to include Cuba. As a matter of fact, he stated, if the Cuban Government and the American Government enter into an agreement for hemispheric defense certain advantages might accrue to the Dominican Republic as it might have the effect of discouraging Cuba from being in sympathy with the various movements which develop from time to time on its territory against the peace and welfare of neighboring nations and it might also alienate some officials of the Cuban Government from their attitude of tolerance and support of the Communistic groups now directing the destinies of Guatemala.

The President thanked me for informing him of these developments in the program of hemispheric defense and especially for the sympathetic attitude of the State Department towards the Dominican Republic. He asked me to assure the Department of State that to the extent of his ability it would have his full cooperation in the task now being undertaken. I informed him that, anticipating those assurances, I had informed the Department and the officers of the defense forces, with whom I had consulted, that in my opinion such cooperation would be forthcoming from him and that I had cited the agreement for the Guided Missile bases[7] as one of the several indications of his attitude in this connection. Nevertheless, I assured him that I would again transmit his assurances to the Department.

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[7] Apparent reference to the Agreement for extending the Long Range Proving Ground (LRPG) for the testing of guided missiles through a portion of the territory of the Dominican Republic, signed at Ciudad Trujillo, Nov. 26, 1951, and entered into force on the same date; for text, see TIAS No. 2425, or 3 UST (pt. 2) 2569.

I am convinced that it was highly desirable for me to discuss this matter with President Trujillo prior to the announcement of the negotiations with the Cuban Government for it prevented him from forming an opinion that by our strengthening the Cuban armed forces that country might be encouraged to again permit the organization of expeditionary forces for attacks on this country. I also believe that if it becomes desirable later to include this country within the hemisphere defense program the way has been paved for sympathetic consideration of any future approach.

I should like for the Department to endeavor to seek from the Defense Department more positive assurances for consideration of Dominican requests for reimbursable assistance. In paragraph three of the letter from the Secretary of Defense,[8] the Department has been admonished to avoid intimations which may raise false hopes for assistance beyond that now being granted. I believe the Department will agree with me that little consideration thus far has been given to the requests of the Dominican Republic by the Department of Defense for reimbursable aid. Over a year ago the Dominican Embassy was refused permission to acquire tanks for the Dominican Air Force on the grounds that those which it desired to export had been scrapped and regulations prevented them from being granted permission to ship them from the United States, and no suggestion as to how the Dominicans might satisfy their needs was made. Almost a year has transpired since the Dominican Embassy sought to acquire from the Defense Department a number of F–47 planes; they were at first denied on the grounds that the Air Department did not have a supply of repair parts adequate for the maintenance of their operation. Although it now appears that the Defense Department is more sympathetic to this request, negotiations have not been concluded. So far as I know, within the last year the only cooperation afforded by the Defense Department to the requests of the Dominican Government, despite the fact that during that period the Dominican Government agreed to permit the establishment of AFMTC site on its territory and accorded extraordinary facilities and cooperation to the various exploration groups, was in approving priorities for a few small items for the airport and Navy Department and by not interposing objections to the export of four PBY planes purchased from private sources. Although the Department may have additional indications of reimbursable cooperation, in my opinion the Defense Department has not been very sympathetic to Dominican requests.

RALPH H. ACKERMAN

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[8] Apparent reference to subparagraph (3) of Mr. Foster's letter of Jan. 25, 1952, *supra*.

739.5 MSP/3-1452

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Director of the Office of Military Assistance in the Department of Defense (Olmsted)[1]

SECRET [WASHINGTON,] March 14, 1952.

MY DEAR GENERAL OLMSTED: In view of certain recent developments, I should like to request that the concurrence of the Department of State in the proposal made to you by General Walsh[2] that the Dominican Republic be included in the military grant aid program for fiscal year 1952, under certain conditions, be withdrawn, at least for the time being, and that an approach to the Dominican Republic regarding negotiations for the necessary agreements be postponed. General Walsh has been informed of this request.

The essential reason for making the request is our view that the initiation of such negotiations following so closely upon recent developments in Cuba[3] and the publicity attendant thereon, might have repercussions in other Latin American countries, and perhaps within the United States, which would adversely affect the continuance of the military assistance program and the achievement of our mutual objective of strengthening the defense of the hemisphere. In spite of the declared intention of the Batista regime to cooperate with the United States, its apparently successful seizure of power in Cuba may encourage groups in other Latin American countries, such as Panama, Ecuador and Chile, to take similar action in those countries which might bring into power elements opposed to the best interests of the United States. Under these circumstances the announcement at this time of the initiation by this Government of military assistance negotiations with the Dominican Government might be interpreted as an encouragement to anti-democratic forces in other Latin American countries. It is also considered likely that such announcement would not be favorably received by public and Congressional opinion in the United States.

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[1] Drafted by Mr. Jamison and Mr. Wellman; approved by Director of the Office of Middle American Affairs Nufer.

[2] Maj. Gen. R. L. Walsh, Chairman of the U.S. Delegation to the Inter-American Defense Board.

[3] Reference is to the successful *coup d'etat* by Gen. Fulgencio Batista on Mar. 10, 1952; for information on the coup, see the second editorial note, p. 867.

I should like to emphasize that our request is for the postponement until a more opportune time of an approach to the Dominican Government. As you know, this Department has concurred in principle with the initiation of negotiations with the Dominican Government for a military assistance agreement on the basis of the Department of Defense's view that it is militarily desirable for that Government to be invited to participate in the grant military assistance program.[4]

Sincerely yours, EDWARD G. MILLER, JR.

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[4] In a letter to Major General Olmsted, dated Apr. 17, 1952, Assistant Secretary Miller stated the following additional reasons for postponing an approach to the Dominican Government regarding its participation in the military grant aid program: (1) it was too late in the fiscal year to open negotiations without attaching conditions, and (2) the United States would not be able to give assurance that our equipment assistance would actually be forthcoming under the current authorization (739.5 MSP/4–1752).

In a letter to Assistant Secretary Miller, dated Apr. 28, 1952, Major General Olmsted replied in part as follows: "In view of the circumstances, no practical disadvantages are foreseen to the further postponement of an approach to the Dominican Republic . . . until the completion of legislative action on the Fiscal Year 1953 Mutual Security Program" (739.5 MSP/4–2852).

739.5622/10–2252

Memorandum by the Chairman of the United States Delegation to the Inter-American Defense Board (Walsh) to the Assistant Secretary of State for Inter-American Affairs (Miller)

SECRET WASHINGTON, 22 October 1952.

Subject: Aircraft for the Dominican Republic

Having been advised that the Dominican Republic has informally requested advice from the Department of State concerning that Department's attitude toward issuance of an export license which would permit the export to the Dominican Republic of 40 F–51 aircraft, it is suggested that the Dominican Republic be informed substantially as follows:

"1. The United States Government is anxious to assist the Dominican Republic in its efforts to establish and maintain a military organization capable of maintaining the internal security of that government and assisting the other American States in their common effort of preparing for defense of the Western Hemisphere against any possible aggression. This general policy is subject, of course, as in the case of all countries, to military priorities which take into account relative urgency of needs for military equipment.

2. The Dominican Republic has purchased 25 F–47s from the United States and, as you know, plans now call for delivery of 6 of these aircraft in November and 8 in December with the balance to fol-

low as soon as practicable. Furthermore, your Government's request, dated 23 June 1952,[1] for 7 additional F–47–B/30 aircraft is now under consideration by the Department of Defense and, as of this time, the request is being given favorable consideration and details are being worked out between U.S. Air Force representatives and the Dominican Embassy.

3. It is suggested that the Dominican Republic make every effort to confine its procurement of fighter aircraft to a single type thereby minimizing maintenance and spare parts procurement difficulties that are inherent with the operation of several types. The United States advises that the Dominican Republic, prior to purchase of F–51s, explore the possibility with the Defense Department of additional procurement of F–47 aircraft. It is possible, if not probable, that delivery of F–47 aircraft cannot be accomplished with the same speed as F–51s; however, we feel that the advantages to be gained in concentrating on a single type of fighter aircraft outweigh the disadvantages of a delay. Furthermore, in the light of present circumstances, the United States will, in all likelihood, be better able to support the spare parts requirements of F–47 aircraft than F–51 aircraft.

4. Under conditions existing at the present time, if the Dominican Republic after seeking from the United States procurement of F–47 aircraft should find that the probable delivery dates are such as to preclude adequate defense and preparation for common defense of the Western Hemisphere and that, concurrently, F–51 aircraft are available in sufficient numbers to meet the defense requirements of that country, the United States would favorably consider an application for license to export these aircraft to the Dominican Republic."

R. L. Walsh
Major General, USAF

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[1] Not printed (739.5 MSP/6–2352).

739.5 MSP/12–252: Telegram

The Chargé in the Dominican Republic (Johnson) to the Department of State

SECRET PRIORITY CIUDAD TRUJILLO, December 5, 1952—noon.

137. Pass USDel IADB, Pentagon. Deptel 67, Dec 4.[1] At request

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[1] The Department of State telegram 67, to Ciudad Trujillo, dated Dec. 4, 1952, instructed the Embassy to indicate whether, in its opinion, the delivery of six F–47 aircraft to the Dominican Republic on Dec. 2, 1952, would cause the Dominican Government to proceed with the negotiations for a military assistance agreement with the intention of reaching a final agreement at the earliest possible date (739.5 MSP/11–2552).

FonMin Diaz Ordonez I called him at 1030 hours today. FonMin said light great interest Commander-in-Chief Armed Forces Generalissimo Trujillo in milit assistance agrmt it wld be impossible go forward with negots his absence. He said he had called me in to tell me this so members our milit team might make their plans correspondingly. He also said he presumed there was no great urgency re conclusion this negot. To avoid direct answer his question I asked if he thought it likely Generalissimo planned discuss any aspects of milit asst agrmt while in US. Diaz Ordonez replied affirmatively without hesitation stating that Generalissimo had taken with him high-level team including Manuel Pena Batlle[2] for this purpose. It is unanimous view Thompson,[3] Gilmer,[4] and me that Generalissimo wishes sign agrmt Wash and that will do so with little or no quibbling. This may partly explain Dom prolongation this negot although we still feel that question delivery F–47's likewise exercised substantial influence.[5]

JOHNSON

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[2] Manuel A. Peña Batlle, president, Dominican National Development Commission, and economic adviser to Generalissimo Trujillo.

[3] Presumably Lee Thompson Stull, Second Secretary and Vice Consul, U.S. Embassy, Ciudad Trujillo.

[4] Lt. Cmdr. Howard Campbell Gilmer, Naval Attaché and Naval Attaché for Air, U.S. Embassy, Ciudad Trujillo.

[5] The Dominican Government had purchased 25 F–47 aircraft in May 1952.

739.11/12-2352

Memorandum by the Secretary of State to the President[1]

CONFIDENTIAL [WASHINGTON,] December 23, 1952.

On December 19[2] you mentioned that attempts were being made to arrange for you to see Generalissimo Rafael Trujillo of the Dominican Republic and perhaps to give him a luncheon.

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[1] Drafted by David G. Nes of the Executive Secretariat; the source text is unsigned.

[2] A memorandum of Secretary Acheson's conversation with President Truman on Dec. 19, 1952, by the Secretary, with respect to an appointment for Generalissimo Trujillo, reads in part as follows: "The President does not want to see him, but, on the other hand, does not want to snub him. If the State Department says he should see Trujillo, he will do it, but will not give a luncheon for him." (739.11/12-2352)

At present Generalissimo Trujillo is Commander-in-Chief of the Dominican Armed Forces and to all intents and purposes the sovereign power in his country. As you know, we have some important projects underway and pending in the Dominican Republic such as the Air Forces' guided missiles test range and a bilateral military agreement which is currently being negotiated.

I believe that it would be desirable for you to see Generalissimo Trujillo briefly if it is at all possible to do so. I do not think, however, that the character of his current visit warrants a luncheon. Generalissimo Trujillo has come to the United States on his own initiative and the State Department has no responsibility for his being here. He has, however, been designated by his Government Special Ambassador-at-Large and Ambassador to the United Nations. It is anticipated that he will be in the United States for several months.[3]

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[3] Department of State files indicate that an appointment was made for Generalissimo Trujillo to see President Truman on Jan. 13, 1953, but no record of their conversation was found.

Eisenhower Library, Eisenhower papers, Jackson records

Memorandum of Conversation, by the Chief of Protocol in the Department of State (Simmons)

RESTRICTED

[WASHINGTON,] March 6, 1953.

Subject: Call on the President by Generalissimo Rafael L. Trujillo

Participants: The President
Generalissimo Trujillo
The Ambassador of the Dominican Republic
John F. Simmons, Chief of Protocol

Generalissimo Trujillo called on the President, by previous appointment, at 3:15 p.m. today. Present for the meeting were His Excellency Señor Dr. Luis Francisco Thomen, Ambassador of the Dominican Republic, and myself.

The conversation opened with an exchange of the usual amenities concerning, on Trujillo's part, pleasure at being received and, on the President's part, expressions of welcome. During this part of the conversation, Trujillo touched upon the need for further inter-American solidarity in the great struggle against Communism. He mentioned the high prestige of the President throughout Latin America, saying that all these countries had confidence in him as a great leader.

Trujillo then expressed his conviction that the President could do nothing finer than to convoke a meeting, in Washington, of all Latin American Foreign Ministers with a view to study, and to find practical means of combatting, the Communist danger.

The President expressed agreement with the fact that this danger exists. He pointed out, however, that the action of the United States in summoning such a conference would have to be given careful thought from the angle that we are all partners and that our arbitrarily arranging such a conference might possibly be misconstrued as an attitude of undue supervision over the actions of our friends in the Americas. He also indicated that any such action would naturally be subject to the careful study and recommendations of the Secretary of State.[1]

Trujillo seemed to understand these important points, but then proceeded to make the further suggestion that a meeting might later be called of all the American Presidents, in order to place these anti-communist discussions on the highest possible level. The President, while not agreeing to this proposal, intimated that it "could be" of value. He asked Trujillo where he had in mind to suggest that such a high level meeting take place. He said at Washington or possibly at some other American capital. The President suggested the Organization of American States as a possible additional medium for such discussions.

Nothing definite was said in the way of a commitment.

The conversation ended on the basis of a friendly interchange of general observations about inter-American solidarity, although the President said that, for example, great differences of opinion on important points were always apt to crop up internally in the various countries, and even more so across international boundaries. Illustrating this, he mentioned the desire of our Western farmers to have high wheat prices, whereas the Eastern cattle raisers and flour consumers wanted them low.

Before departing, both Generalissimo Trujillo and the Ambassador expressed great satisfaction that the President had received them.

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[1] On Feb. 19, 1953, Generalissimo Trujillo had discussed his proposal for a meeting of the Foreign Ministers of the American Republics to formulate an anti-Communist policy with Secretary Dulles; a memorandum of their conversation, dated Feb. 19, is contained in Secretary's Memoranda of Conversation, lot 64 D 199.

Editorial Note

On September 22, 1952, representatives of the United States and the Dominican Republic initiated negotiations at Ciudad Trujillo for a bilateral military assistance agreement. Documents pertaining to the negotiations are in Department of State file 739.5 MSP for 1952 and 1953. For text of the Military Assistance Agreement, signed at Washington, by Generalissimo Trujillo for the Dominican Republic and Secretary Dulles for the United States, March 6, 1953, and entered into force, June 10, 1953, see Department of State Treaties and Other International Acts Series (TIAS) No. 2777, or *United States Treaties and Other International Agreements* (UST), volume 4, page 184.

Concurrent with the negotiations for the Military Assistance Agreement, representatives of the United States and the Dominican Republic conducted negotiations for a related bilateral military plan. The "Plan of the Governments of the United States and the Dominican Republic for Their Common Defense," signed at the Pentagon in Washington, March 6, 1953, was transmitted to the Department of State under cover of a memorandum to Mr. Spencer, by Lieutenant Colonel James M. Hall, Secretary to the United States Delegation to the Inter-American Defense Board, dated March 23, 1953, not printed (739.5 MSP/3-2353).

Editorial Note

In airgram A–123, to Ciudad Trujillo, dated May 20, 1953, the Department informed the Embassy that the Department of Defense recommended, in accordance with the provisions of the Military Assistance Agreement, the establishment of a Military Assistance Advisory Group (MAAG) in the Dominican Republic, consisting of four officers and five enlisted men at a total cost of $108,000 for an 18-month period. The Department requested the Embassy to initiate negotiations with the Dominican Government as soon as the Military Assistance Agreement was ratified and to obtain its consent to provide the local currency requirement to cover the administrative and operating costs of the MAAG (739.5 MSP/5–2053).

In despatch 135, from Ciudad Trujillo, dated August 7, 1953, the Embassy reported that it received payment amounting to $54,200 in pesos from the Dominican Government to defray the first 6-months expenses of the MAAG (739.5 MSP/8–753).

839.00 TA/3–3053: Airgram

The Acting Secretary of State to the Embassy in the Dominican Republic[1]

SECRET WASHINGTON, May 14, 1953.

A–117. Reference is made to the Embassy's despatches 503 of January 2, 1953,[2] and Totec 41 of March 30.[3] Reference is also made to those portions of despatch 578 of January 27,[4] related to the United States technical assistance program.

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[1] Drafted by Cedric C. Philipp of the Office of Regional American Affairs; signed for the Acting Secretary by Mr. Cale.

[2] Despatch 503, from Ciudad Trujillo, contains a report concerning the operation and status of programs in the Dominican Republic authorized by the Mutual Security Act of 1951 (739.5 MSP/1–253).

[3] The referenced despatch, from Ciudad Trujillo, contains a program summary for the month of February by Director of Technical Cooperation in the Dominican Republic George J. Greco (839.00 TA/3–3053).

In despatches 503 and 578 (page 37), the Embassy suggests that careful consideration should be given to the propriety of curtailing or even terminating the United States technical assistance program in the Dominican Republic unless Generalissimo Trujillo adopts a more satisfactory attitude and takes steps to improve the climate for foreign investment. This suggestion is made in view of the recent failure of the Dominican Government to respect its contractual obligations to United States companies and in view of unofficial threats to expropriate companies in which United States investors have substantial interests.

The Department is fully aware of this situation and can understand sympathetically the position which the Embassy is inclined to assume because of it. The Department has concluded, however, that it would be unwise to attempt at this time to withhold or withdraw technical assistance either as a measure of disapproval of the present unfavorable treatment of United States business interests or as a means of influencing the Dominican Government to change its practices in this regard. One of the factors influencing the Department in reaching this conclusion is the belief that the program offers only limited leverage.

SMITH

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[4] Despatch 578, from Ciudad Trujillo, reported on the personality and current policies of Generalissimo Trujillo (739.11/1-2753).

720.001/7-853

Memorandum of Conversation, by the Director of the Office of Middle American Affairs (Burrows)[1]

CONFIDENTIAL [WASHINGTON,] July 8, 1953.

Subject: Proposal for a meeting of Foreign Ministers of the American Republics to consider anti-Communist policy and actions[2]

Participants: The Secretary
Ambassador Thomen of the Dominican Republic
Mr. Charles R. Burrows, Director, Office of Middle American Affairs

After an exchange of amenities, the Secretary opened the way for a discussion of Ambassador Thomen's business by referring to the copy of the Dominican memorandum[3] which had been furnished the Department in advance and which the Secretary had in his hand at the time.

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[1] A handwritten notation on the source text, initialed by Mr. O'Connor, indicates that the Secretary approved this memorandum.

[2] Ambassador Thomen discussed this subject with Assistant Secretary Cabot on Mar. 11, 1953; a memorandum of their conversation, dated Mar. 11, is in file 720.001/3-1153.

[3] The referenced memorandum, dated July 8, 1953, delivered to the Department of State on the same date by Ambassador Thomen, requested the Department's views with respect to the Dominican proposal that a meeting of Foreign Ministers be called to consider what action the American States could undertake against the threat to their collective interests presented by international Communism (720.001/7-853).

Ambassador Thomen expounded upon the concern which his Government feels as a result of Communist activities and dangers throughout the Americas and in the Caribbean and Panamanian areas in particular. He referred to the 1951 Meeting of Foreign Ministers in Washington,[4] to the general resolutions adopted at that Meeting and to the limited action which followed and then stressed the need now for follow-up and more specific measures against the ever-increasing dangers of international Communism. He said his Government felt that another meeting of Foreign Ministers would be the only proper means of achieving this purpose.

The Secretary asked if the Dominican Republic did not feel that the Caracas Conference[5] would provide a more suitable and adequate opportunity for consideration of this problem. Ambassador Thomen said that his Government does not believe that such a controversial subject as this should be introduced into the Inter-American Conference, which should always be a symbol to the world of Pan American unity. He said he felt that a meeting of Foreign Ministers called specifically for the purpose of considering international Communism would leave the Inter-American Conference agenda free of this difficult subject. He said also that his Government feels the dangers presented by Communism in the Americas require more urgent attention then consideration at the Caracas Conference.

The Secretary pointed out that unless very general resolutions only are considered there is bound to be a certain amount of active discussion and controversy and said that he did not believe the danger of controversy was sufficient reason not to have the Caracas Conference consider the subject. He said that if the action taken is of a kind that will have real meaning there will be a certain amount of controversy but there is not necessarily any need to fear this. Mr. Burrows suggested that the kind of controversy which the Ambassador seemed to fear would be just as unfortunate at a meeting of Foreign Ministers as in the Inter-American Conference.

The Secretary asked if the Dominican Republic had received any indications of reaction from any other countries as yet. The Ambassador replied affirmatively and said that the reaction had been favorable from "several" Central American nations. The Secretary said he thought it would be a good idea to await the return to Washington of Dr. Eisenhower and his group in order to obtain the benefit of their opinion following their trip around South America. The Ambassador said that his Government had "expected" (he probably meant hoped) a prompt reply because it was felt that the matter was very urgent and that a meeting of Foreign Ministers should be held promptly. In reply to the Secretary's query as to when the Dominican Republic would hope that such a meeting could be held, the Ambassador said "next month".

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[4] Reference is to the Fourth Meeting of Consultation of Ministers of Foreign Affairs of American States, held in Washington, Mar. 26–Apr. 7, 1951; for documentation, see *Foreign Relations*, 1951, vol. II, pp. 925 ff.

[5] Reference is to the Tenth Inter-American Conference, held at Caracas, Venezuela, Mar. 1–28, 1954; for documentation on the conference, see pp. 264 ff.

The Secretary said that next month seems far too soon for a meeting of this kind. He said there would have to be very careful preparation and certainly the United States Government could not complete preparations so quickly for such an important meeting. He said that if a meeting of this nature were to mean anything at all it would have to consider some very difficult problems—such as intervention by an international organization in the internal affairs of individual countries. As far as the United States was concerned, this would raise very complicated questions. On the other hand, the Secretary questioned the usefulness of only general resolutions. He asked the Ambassador to report to his Government that the Secretary did not wish to reply more definitely until he had had a chance to consult with Dr. Eisenhower and to obtain his reaction.

Ambassador Thomen asked the Secretary if he had any suggestions as to what the Ambassador might say to the representatives of the press who were waiting outside. The Secretary said that the Ambassador of course could say what he liked concerning his own part of the conversation but he asked he not quote the Secretary. The Secretary said that he supposed he might tell the press that he had given the Secretary a memorandum from his Government concerning the possibility of a meeting of Foreign Ministers to discuss the problem of Communism in the Americas and that there had been some general exchange of opinions on the subject. Mr. Burrows suggested that so far as he knew there had not been any previous publicity with reference to similar conversations in any of the other countries and the Ambassador said that he would evade any press questions on the subject. When he left the Secretary's office the Ambassador told correspondents that he had delivered a note to the Secretary and had discussed it with him but that he was not free to disclose the subject of the note to the press. In reply to a question he said that the subject of the memorandum was of interest to all the American nations.[6]

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[6] On Aug. 18, 1953, Acting Secretary Smith handed Ambassador Thomen a memorandum of the same date, which stated that the Department of State doubted the practicality of holding a special consultative meeting of Foreign Ministers prior to the Tenth Inter-American Conference, particularly in view of the possibility that the Conference might provide a suitable opportunity for consideration of the Communist problem (720.001/7-853).

No special meeting of Foreign Ministers along the lines proposed by the Dominican Government was held in 1953 or 1954.

839.00 TA/10-3053

Memorandum by Harvey R. Wellman of the Office of Middle American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward)[1]

CONFIDENTIAL [WASHINGTON,] October 30, 1953.

Subject: Point IV Program in the Dominican Republic for FY 1955

In the attached memorandum dated June 22[2] you suggested that we should examine carefully our technical assistance program in the Dominican Republic in order to decide whether the money and effort expended are justified. MID has been presented with the tentative budget for fiscal 1955 for the Dominican Republic, a copy of which is attached for your information.[3] After consideration by the Bureau of the Budget, the proposed program will again be submitted to us for more extended comment.

While the fiscal 1955 program is $125,000 more than the one for 1954 ($481,000 compared to $356,000) it is about the same in terms of activities and training grants, and smaller in terms of the number of technicians. The lower budget figure for 1954 is due primarily to the lag in assigning technicians and getting programmed activities going.

I do not believe it would be desirable to suggest that the program be curtailed to a level below that proposed for FY 1955. Official treatment of American business has been more favorable over the past year and our relations with the Dominican Republic seem to be on a more cordial basis than at any time since World War II.

On the other hand, I do not think we would be justified in increasing the program appreciably. The Dominican Government has the money and the inclination to contract for technical assistance from private sources. Moreover, it has poured considerable funds into non-productive enterprises, notably armaments, which could have been used for the public welfare.

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[1] Drafted by William B. Connett of the Office of Middle American Affairs.

[2] The referenced memorandum by Deputy Assistant Secretary Woodward to Messrs. Burrows, Wellman, and Connett is attached to the source text, but not printed.

[3] Not printed.

If you agree, we will inform FOA that ARA approves the tentative budget for the Dominican Republic for FY 1955.[4]

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[4] In a memorandum to Mr. Wellman, dated Nov. 3, 1953, Deputy Assistant Secretary Woodward stated in part the following: "I agree that ARA should approve the tentative budget for the FOA in the Dominican Republic for FY 1955." (839.00 TA/10–3053)

811.05139/12–3153: Airgram

The Secretary of State to the Embassy in the Dominican Republic[1]

SECRET [WASHINGTON,] January 13, 1954.

Subject: Dominican Harassment of American Business

A–65. The Embassy's despatch No. 602 of December 31[2] refers to increased harassment of American business interests in the Dominican Republic, as reported in previous correspondence and summarized in the Embassy's despatch No. 601 of the same date.[3] The Embassy expresses the opinion that these measures represent a well-planned campaign to terrorize the companies or to ruin them financially. It suggests that some action should be taken by the Department or the Embassy to protect American capital and that this might best be done through exploratory conversations with high Dominican officials, followed, if appropriate, by formal representations.

The Department shares the concern of the Embassy at these developments. The measures referred to may merely represent temporary harassments to gain specific and immediate ends, such as the extention of the *colono* system by the sugar companies. On the other hand, they may represent a calculated campaign to force the companies out of business. Whatever the motive, the situation in the Department's opinion has become sufficiently acute to justify serious consideration of the desirability of making representations to the Dominican Government.

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[1] Drafted by Mr. Wellman and Mr. Connett; cleared by Deputy Assistant Secretary Woodward and in substance with the Department of Commerce.

[2] In despatch 602, Chargé Johnson stated that the Embassy strongly believed that some action should be taken to protect American capital against the intensification of discriminatory measures and press attacks occurring in the Dominican Republic, but not before an informal exploratory conversation was held with Generalissimo Trujillo. He further stated the following: "In the meantime, it is our considered opinion that our attitude toward the Dominicans should be characterized by uneffusive politeness, and that we should continue to avoid any action or statements which might give American investors the impression that we are showing too much friendliness to Trujillo at a time when he is attacking their interests." (811.05139/12–3153)

[3] Not printed (811.05139/12–3153).

As the Embassy is aware, this general question was brought to the attention of the Dominican Government in December 1952 when, as at the present time, the harassment of American business had become acute. At that time, representations were made in Washington to the Dominican Ambassador rather than in Ciudad Trujillo because Generalissimo Trujillo was then in Washington, along with his chief economic adviser, Dr. Manuel Pena Batlle.

The Embassy has suggested the desirability of an informal approach, at least in the first instance, by the Ambassador to Generalissimo Trujillo or one of his close advisers. The Department authorizes the Ambassador to make such an approach if, after reviewing the developments which have taken place during his recent absence, he concludes the time is propitious and such informal representations would provide the best assurance of success. The Department recognizes that important considerations in the Embassy's suggested approach are that the Ambassador could exploit in informal, friendly conversations the very good relations which he has with the Dominican Government and with Generalissimo Trujillo personally, and that there would be less risk in such an approach of giving offense to those whose cooperation is important.

In any conversations he might have with Dominican officials, the Ambassador might find it useful to refer to the *Aide-Mémoire* delivered to the Dominican Ambassador in Washington on December 22, 1952[4] in which the Department expressed its concern at the treatment being accorded American firms by the Dominican Government and its hope that the Government of the Dominican Republic might see fit to create a climate more favorable to private investment. He might wish to mention a) that the Department had been encouraged by the oral assurances given at the time by Ambassadors Thomen and Pena Batlle that American investments were not being mistreated, and had hoped that subsequent events would confirm this; b) that the pronouncements of the Dominican Government, such as those appearing in recent supplements of the New York *Herald Tribune* and the *New York Times*, have welcomed foreign investment and have pointed with pride to the favorable treatment accorded it in the Dominican Republic; and c) that recent public measures and attacks in the controlled press against American companies seem inconsistent with these protestations of good will towards foreign business interests.

It might also be appropriate for the Ambassador to suggest, in a friendly way, that the present policy of the Dominican Government vis-à-vis American business, seems short-sighted; that, if continued, it might be expected to result in unfortunate publicity in the international press; and, more important, that it might discourage the foreign investments which the Dominican Government itself acknowledges as desirable in furthering the country's economic development.

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[4] The referenced *aide-mémoire*, dated Dec. 22, 1952, is not printed (811.05139/12–2252).

Before making any approach to Dominican officials the Ambassador may wish to consult further with the representatives of some of the American firms concerned. However, the Department does not believe that the reluctance of some of them to have the Embassy take the question up, in a general way, with the Dominican Government should necessarily deter the Ambassador from doing so. The Executive Branch of this Government has a congressional mandate to take measures to encourage private investment abroad and it has an obligation to protect not only existing but also prospective American investors.

The Department will appreciate being informed of the Ambassador's views and of any informal conversations which the Ambassador may have with Dominican officials with respect to this matter, as well as receiving any further recommendations the Embassy may have.

DULLES

MID files, lot 58 D 738, "Protection"

The Assistant Secretary of State for Inter-American Affairs (Cabot) to the Assistant Secretary of Commerce for International Affairs (Anderson)[1]

CONFIDENTIAL [WASHINGTON,] February 5, 1954.

DEAR SAM: I have received your letter of January 28[2] expressing your concern at recent developments affecting United States investments in the Dominican Republic. I share your concern and we shall have to consider what additional action should be taken by our Government if matters fail to improve following Ambassador Pheiffer's recent exploratory talk with Generalissimo Trujillo.

You will by now have received a copy of despatch No. 673 dated January 20, 1954[3] from Ciudad Trujillo in which Ambassador Pheiffer describes his conversation with Generalissimo Trujillo on this subject. You will note from this despatch that Trujillo gave assurances that he would accord favorable treatment to existing and future American investments in the Dominican Republic and that American companies would not be required to sell or cede their lands to farmers. He also expressed the opinion that the companies should be able to work out their problems in direct negotiations with the Dominican Government, and he appointed an *ad hoc* Commission to carry on such negotiations with representatives of the companies. You will also note that our Ambassador was encouraged to believe that his representations would result in some short run improvement for the American companies but was not optimistic about the long run outlook.

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[1] Drafted by Mr. Connett.

[2] Not found in Department of State files.

[3] Not printed (811.05139/1-2054).

Insufficient time has elapsed to judge whether any improvement has taken place. The strike threat indicated in Ciudad Trujillo's telegram No. 82 of January 26[4] and the continuing, though somewhat abated, attacks against the companies in the controlled press, as described in recent despatches, do not augur well. On the other hand, these developments antedate the commencement of negotiations (if indeed they have commenced) between the companies and the *ad hoc* Commission. After these discussions have progressed a while, we should have a better idea of what the sugar companies may expect, at least for the immediate future.

I agree with Ambassador Pheiffer's recommendation in the second paragraph under "Conclusions" of despatch 673 that unless direct negotiations between the companies and the Dominican Government prove fruitless we should not take any further action. If and when further action is indicated, we will consult with you.

Sincerely yours,

JOHN M. CABOT

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[4] Not printed (839.2351/1–2654).

611.39/3–154

The Ambassador in the Dominican Republic (Pheiffer) to the Department of State

SECRET

CIUDAD TRUJILLO, March 1, 1954.

No. 806

Ref: Embdes. No. 578 of January 27, 1953.[1]

Subject: Foreign Relations of the Dominican Republic during 1953.

RELATIONS WITH THE UNITED STATES

SUMMARY AND CONCLUSIONS

The graph of Dominican-American political and economic relations for 1953 fluctuated wildly, but military cooperation continued on a high plane. At the year's end, violent attacks on American capital forced us to view the future darkly and to recommend reconsideration of our policy toward the regime.

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[1] Not printed; it reported on Trujillo's personality and policies (739.11/1–2753).

A. NARRATIVE OF DEVELOPMENTS

During Trujillo's visit to the United States (December, 1952–March, 1953) Dominican press comment favored the United States, and the *Jefe* himself made several friendly statements to our press and public officials. He also approved the long-pending Military Assistance Agreement, and, following our December 1952 protest against his mistreatment of American companies, ordered a cessation of press and psychological warfare and a negotiated settlement with the Grenada Company.

But Trujillo clearly was not satisfied with his achievements in the United States. Two Presidents and two Secretaries of State received him; he was entertained at Blair House and by many prominent persons; and he was permitted to sign the Military Assistance Agreement in Washington. Nevertheless, the relative neglect of his activities by our press, his inability to make a big splash in the United Nations, our lack of enthusiasm for his proposal to convene the OAS foreign ministers to consider the menace of communism, our December protest, and perhaps other unknown affronts to vanity, seem to have given him a rankling, if unjustified, feeling that we had treated him shabbily. He may also have taken Mr. Cabot's appointment as Assistant Secretary for Inter-American Affairs as a personal affront, because Mr. Cabot had spoken frankly to him in 1930[2] about his commitment to keep out of politics. A deterioration in the Dominican economic situation probably exacerbated his discontent over the U.S. sugar quota, and he may have felt disappointment that the advent of a more conservative administration, headed by a military man, had failed to improve his position vis-à-vis the United States.

In any event, our political and economic relations cooled rapidly soon after his return to the Dominican Republic. The Dominicans dallied over ratification of the Military Assistance Agreement and their press began attacking American diplomats formerly charged with conducting our relations with the Republic. Trujillo left the country immediately prior to Assistant Secretary Cabot's visit,[3] and his henchmen extended him only grudging hospitality. The Dominican Embassy protested the publication of the *Boletin* of the Dominican Revolutionary Party in the United States and its circulation through our mails; and, late in April, Trujillo rudely and abruptly terminated a Point IV rubber project on which we had cooperated since 1942.

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[2] When Assistant Secretary Cabot served as Third Secretary in the Legation at Santo Domingo.

[3] Assistant Secretary Cabot visited a number of Latin American countries during the period Apr. 6–May 3, 1953; documents pertaining to his trip are in file 110.15 CA.

In the meantime we had become concerned about the Dominicans' discriminatory tactics in behalf of their new merchant fleet, their refusal to permit exports of pineapple slips to Puerto Rico, evidence pointing to the implication of Dominican Consul General Bernardino[4] in the Requena[5] murder, and our responsibility as Unified Command of the United Nations to ascertain whether or not the publicity-loving Benefactor would back up his press offer to send troops to Korea.

May saw a rapid deterioration in all save our military relations. The Acting Foreign Minister received our polite request of May 4 for confirmation that the Republic would send troops to Korea with agitation indicating that he anticipated an unpleasant meeting with his Chief; and the Generalissimo told a group of visiting INS reporters on that date that the State Department had opened great breaches in American unity by following strange policies—although he added that he expected great things from the new Administration. *El Caribe* of May 6 revealed an unexpected depth of animosity toward the foreign sugar companies, when it attacked them bitterly merely because a company financial statement had contained an innocuous reference to higher Dominican taxation. At about this time Trujillo also terminated a contract under which the South Porto Rico Sugar Company had managed his Rio Haina estates.

Ambassador Thomen requested an interview with the Secretary early in May to protest remarks derogatory to Trujillo, which Assistant Secretary Cabot allegedly had made while in the Dominican Republic. He withdrew his request almost immediately; but, on May 19 General Hermida, the Chief of Dominican Army Intelligence told foreign news services that Mr. Cabot had discussed and concerted plans with communist enemies of the Dominican Republic during his Caribbean trip. On May 20 Mr. Cabot's name was linked with those of former Assistant Secretaries Braden and Miller in an *El Caribe* editorial highly critical of their activities. The local press published the Hermida charges on May 23, and it repeated them with various embellishments, and with the added support of a statement of the Under Secretary of the Dominican Foreign Office, on May 25 and 29.[6]

We originally viewed the attack on Mr. Cabot as an explosive manifestation of the *Jefe's* disgruntlement caused by the factors previously outlined and triggered by our query about troops for Korea. The fact that Hermida's statement attacking Mr. Cabot expressed doubt about the Dominicans' ability to send troops to Korea while their own security was in jeopardy led us to view this matter as the precipitating incident. Trujillo's later backings and fillings proved that he was indeed loath to send troops; but an interview of June 8 which the Chargé d'Affaires a.i. had with him revealed clearly that remarks attributed to Mr. Cabot while he was here and in Managua had set off the fireworks. But the attack cannot be classified merely as a passionate outburst followed by unconsidered action, because Trujillo quickly dropped his first impulse to act through diplomatic channels and carefully planned his campaign of character assassination. His efforts to isolate Mr. Cabot by displaying good will for the Administration and for Ambassador Phelps deeply underscored this deliberateness.

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[4] Felix Bernardino.

[5] Andres Requeña.

[6] Reference is to a series of charges in Dominican newspapers that during his visit to Latin America, Apr. 6–May 3, 1953, Mr. Cabot spent much of his time discussing matters with Communist enemies of some of the governments he visited; documentation concerning this incident is in Cabot files, lot 56 D 13.

Reference has already been made to his May 4 press statement friendly to the Administration but critical of the Department. On May 14 Ambassador Phelps received word that the University of Santo Domingo wished to give him an honorary degree. The investiture on May 19 coincided with the release of the Hermida statement to the foreign press, and Ambassador Phelps' friendly remarks at the convocation, in the presence of the entire Diplomatic Corps, were of course fully reported by the local press. Moreover, *El Caribe's* editorial commending Ambassador Phelps also fired the first gun at Mr. Cabot. The Generalissmo later invited the Ambassador to an informal luncheon at the National Palace—extending to him an honor which had then been enjoyed by few diplomats; and, after the Hermida communiqué appeared locally, the Foreign Minister arranged a farewell luncheon in the Ambassador's honor!

But the smear campaign failed so completely that Trujillo was ready and anxious to make peace by the end of May. It failed because of the actions and inaction of the Department and the Embassy, and because the obvious falsity of the charges made the world press wary of accepting them.

The Department's disdainfully brief initial press statement dismissed them as too ridiculous to merit comment. It then ignored them until June 1, when it instructed the Embassy to request the recall of Bernardino, affirm that this request had nothing to do with the libels against Mr. Cabot, and assert that our Government was confident "that there is no truth whatsoever to those charges but that it now plans to take no action regarding them since it considers that the supreme issue confronting all of the American Republics is that of the menace of communism". This instruction, received on June 5, was acted upon the same day.

Meanwhile, the Embassy had taken several steps to counter Trujillo's obvious efforts to exploit Ambassador Phelps while maligning his superior. The Ambassador had planned to leave on June 4, and he had accepted invitations to farewell parties from the Acting Foreign Minister, the Panamanian Ambassador, and the Diplomatic Corps for May 30, June 1 and June 3 respectively. He had also made tentative arrangements to lay a wreath at the Alter de la Patria on June 3. When the Department informed him on May 27 that the wreath laying should not take place, he decided to leave on the morning of May 30, and he communicated this decision to the Acting Foreign Minister on May 28. The Embassy also recommended to Washington the cancellation of a proposed informal naval visit and requested permission to delay the transmittal of Senate and House Pan American Day resolutions to the Dominican Congress. The Dominicans may have noted that the resolutions had been delivered to the legislatures of other states, and may even have gotten wind of the cancellation of the naval visit. On May 30 the President and Mrs. Eisenhower attended a party honoring Dr. Milton Eisenhower at the Cabots' home. Since many prominent Latin Americans were also present, the Dominicans undoubtedly received word immediately of this indication of the President's confidence in Mr. Cabot.

These activities and calculated delays brought Trujillo back into line with surprising speed, as the following circumstances demonstrate: 1. *El Caribe's* last article attacking Mr. Cabot appeared on May 29, the day following Ambassador Phelps' announcement of his decision to expedite his departure. Its tone was defensive, stressing the right of the Dominicans to defend their own system of government. 2. The substance of the Department's instruction of June 1 was presented to the Under Secretary for Foreign Affairs on June 5. The Acting Foreign Minister informed the Chargé d'Affaires a.i. on the following morning that we would soon receive a note stating that the Military Assistance Agreement was in effect. 3. On the morning of June 8 we received the promised note, and the Generalissimo called in the Chargé d'Affaires a.i. for a personal interview, followed by an intimate luncheon. 4. During the course of this meeting, Trujillo said that he would send a thousand men to Korea if we wanted them, agreed to remove Bernardino from New York, made arrangements for the initiation of technical negotiations on Dominican financial support for MAAG, ordered that efforts be made to expedite the presentation of Ambassador Pheiffer's credentials, and made fervent protestations of his friendship for the United States. 5. After the luncheon the Acting Foreign Minister promised to look into the matter of the long-stalled draft treaty of Friendship, Commerce and Navigation.

These concessions initiated another of our many honeymoons with the Dominicans. The local press of June 9 gave favorable news and editorial coverage to the United States and lauded the press statement which Ambassador Designate Pheiffer released after paying a farewell call on President Eisenhower. An *El Caribe* editorial of June 10 told the Dominicans, in effect, that their relations with the United States were on a friendly basis once more.

No political or economic problems troubled Dominican-American relations from June 8 until the end of August. Ambassador Pheiffer arrived in Ciudad Trujillo on June 26 and presented his credentials on June 29. Trujillo made unusual efforts to win his friendship during July and August by showing him personal attentions and by ordering the Foreign Office to act favorably on several matters of interest to us, including a resumption of pineapple slip exports and requests for Dominican support for our UN positions. We were also encouraged to believe that we would soon receive favorable reactions to the Draft Treaty of Friendship, Commerce and Navigation, and the Dominicans sent us their check for the first semester peso expenses of MAAG with minimal delay.

[Here follow comments about renewed press attacks in the Dominican Republic on former Assistant Secretary of State Braden and Ambassador Ellis Briggs; see footnote 9, below.]

In any event, the *Jefe* renewed full-scale press attacks on American interests in November with a vituperativeness and volume never before observed. The sugar companies were the principal victims but the Cía. Electrica and the Grenada Company also received hard knocks. The language in which American interests were attacked might well have been *Pravda*'s, and the lavish use of terms such as "foreigners", "whites", and "foreign exploiters" extended their potential effects to all foreign enterprises.

Punitive laws and administrative pressures aimed at terrifying the companies and weakening them financially accompanied the press attacks. New decrees raised existing taxes on the sugar companies and imposed additional taxation. Government inspectors launched rigid and discriminatory drives to enforce labor and sanitary legislation. The press flayed the companies for not obtaining more of their cane from *colonos*, giving the definite impression, as did officials of the Development Commission, that they would be required to sell half of their lands to Dominicans for Banco Agricola mortgage bonds. To cap cruelty with incongruity, pressures were put on foreign as well as Dominican businessmen to place a legend on the envelopes of letters going to the United States complaining of our discrimination against Dominican sugar!

Negotiations to purchase the Cía. Electrica were accompanied throughout 1953 by various measures of psychological warfare; and, in December, the Government forbade the company to suspend service for non-payment, except with the permission of the authorities. It also hinted that the Company's dollar remittances might be curtailed.

The Grenada Company, under attack for holding too much uncultivated acreage, began negotiating voluntarily to sell part of these lands to the Agricultural Bank in the hope of forestalling a more general expropriation.

The foreign oil companies, which had been living for two years under a threat that they might have to move their tank farms to a site outside the city, received a final removal notice in October. They were later forced to buy new sites at highly inflated values and a compensating increase in their sales prices was denied.

During this vicious campaign, our political and military relationships preserved an air of friendship and collaboration which soon became highly strained, at least on the political side. The *Jefe* continued to try to forestall a protest by making friendly personal gestures to the Ambassador, by acceding to several requests for support for our positions in international organizations, by agreeing, early in December, to remove Mr. Braden's name from the monuments commemorating the cancellation of the internal debt, and by accepting administrative modifications in the Guided Missiles Agreement requested by our military authorities.

Despite these concessions we took a dim view of the future because of our growing conviction that Trujillo intends to possess, sooner or later, the properties of the American agricultural and electric companies. His recent efforts to strengthen his lobby and public relations in the United States, as summarized in the following section, argue, moreover, that he may be preparing a position from which to attack the Department or its officials in any future controversy over the protection of American interests.

[Here follows section B, a discussion of Generalissimo Trujillo's efforts to improve his public image in the United States.]

C. THE DIPLOMATIC BALANCE OF PAYMENTS FOR 1953

The preceding narrative of erratic political relations, excellent military cooperation and attacks on private American business enterprises, suggests that it may be useful to try to allocate the events of 1953 in a rough diplomatic balance sheet, in order to permit a comparison between Dominican assistance to us and our aid to them.

1. *Dominican Cooperation with the U.S.*

a. *In International Agencies.*

Dominican cooperation in the United Nations and its agencies continued on the highly satisfactory level of 1952. The Embassy received favorable replies to requests for support for our positions on ten occasions, and the Dominicans voted for Dr. Luther Evans as Director General of UNESCO although we did not campaign for him.

Dominican cooperation in the Third Part of the VII Session of UNGA was "outstanding". Our consultations on various items of the agenda for the VIII Session also produced satisfactory reactions, except on proposals for financing assistance to underdeveloped nations. None of our requests for Dominican support on specific issues before the UN or specialized agencies was refused outright, but we received evasive replies when we tried to pin them down about troops for Korea and when we asked for their vote for the proposed merger of the administrative functions of the International Bureau of Arbitration with those of the Registry of the International Court of Justice.

With respect to Inter-American matters, the Foreign Office agreed readily in February not to allow any official Dominican representation in the Santiago CTAL Conference; and in October it endorsed our position that the X Inter-American Conference should be held as scheduled in Caracas.

b. *Bi-Lateral Programs and Negotiations.*

The Dominicans cooperated fully with our IAGS group throughout 1953. They acceded readily to requests for administrative modifications of the Guided Missiles Agreement and they gave full cooperation to our liaison officer.

The Military Assistance Agreement of March 6, 1953 was promulgated without publicity on April 16, and it was not until June 8 that we were told that ratification had been completed. But negotiation of the financial supplement required only a month, and the first Dominican installment for the local expenses of MAAG reached us on August 7.

Cooperation with our Point IV Mission was good, but less effective than in 1952. The Dominicans met their financial commitments promptly, but were slow in providing counterparts, transportation and other facilities for the agricultural and nursing programs, apparently because of budgetary difficulties. They terminated the rubber program peremptorily in April because the Generalissimo desired to use the Piedra Blanca lands for his cattle empire, but, when reminded of their obligation to give notice of termination, they complied readily.

Despite favorable indications, the Dominicans failed to give us their reactions to the 1951 draft treaty of friendship, commerce and navigation.[7] We surmise that Trujillo's decision to renew his attacks on American business interests led him to alter a tentative decision to negotiate.

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[7] The referenced draft treaty is not printed; documents pertaining to negotiations between the United States and the Dominican Republic with respect to the draft treaty are in file 611.3942.

c. *In response to our representations.*

Most of our representations to the Dominicans got quick and satisfactory results but we encountered delay in one case and sharp dealing in another.

Our request for the withdrawal of Dominican Consul General Bernardino from New york was acted upon to our complete satisfaction, as was an informal request about the presentation of Ambassador Pheiffer's credentials.

We failed initially to obtain export permits for pineapple slips needed in Puerto Rico, apparently because the Dominicans were planning to install a plant for canning pineapple juice and were anxious to increase local pineapple production. But plans for the canning factory were dropped after its economics proved to be unfavorable and when Ambassador Pheiffer raised the subject early in July he was told that the matter would be reviewed. An open end permit was granted a few weeks later.

When it was learned, early in September, that the Generalissimo had included a reference to a secret military pact with the U.S. in an article prepared for a special supplement of the *Herald Tribune*, a chat with General Anselmo Paulino[8] elicited a promise that the reference would be removed and a statement that the *Jefe* had not been aware of its inclusion.

The incident of the plaques,[9] although ultimately resolved favorably, showed the *Jefe* to be unpleasantly sharp in his dealings.

Our request of December that permission be granted the Dominican Embassy in Panama to issue multiple entry visas valid for one year to our diplomatic couriers based there was granted with minimal delay.

d. *Other Friendly Gestures.*

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[8] Anselmo A. Paulino Alvarez, Dominican Secretary of State Without Portfolio.

[9] Reference is to the proposed plan of the Dominican Government to erect bronze tablets in Ciudad Trujillo and Luperón commemorating Generalissimo Trujillo's retirement of the Dominican internal debt. The tablets were to bear legends attributing the debt to defense requirements arising from conspiratorial activities of the Dominican Republic's enemies in neighboring countries, and the names of certain individuals, including former U.S. Ambassadors Spruille Braden and Ellis O. Briggs, as having been chiefly responsible for these activities. Documents pertaining to the efforts of the United States to have the derogatory references to Messrs. Braden and Briggs removed from the proposed tablets are in file 739.00 for 1952 and 1953.

All distinguished American visitors received friendly press treatment and, with the exception of Assistant Secretary Cabot, generous official hospitality. The crews of our Naval vessels, which resumed informal calls at Ciudad Trujillo in the first quarter of 1953, got warm receptions from the press and public.

Ambassador Pheiffer had an excellent press upon his arrival and special arrangements were made for a rapid presentation of his credentials. After the presentation he was entertained at a private luncheon by the Generalissimo and President Trujillo. The Generalissimo later made exceptional efforts to facilitate the Ambassador's trips to the northwestern and southwestern regions of the Republic.

On at least three occasions the Generalissimo released press statements friendly to the U.S. On July 1, he was quoted as having said that all nations of the Hemisphere should rally around the United States. On August 1 he told a group of Chiefs of Mission that no one disputes the greatness of the American people and that we now have our eyes open, although we are still necessarily a "little ingenuous because we have not suffered adversity". On November 14 the press quoted the Generalissimo apocryphally as having told Ambassador Pheiffer that the Dominican Armed Forces would always be ready "to fight communism at the side of the Forces of the United States which your President, General Eisenhower, has commanded". This statement took on added significance from the fact that it appeared in an article describing ceremonies at which Trujillo was presented with the Croix de Guerre with Palms by a French general.

When Senator Taft[10] and Chief Justice Vinson[11] died, the Dominican Government declared three days of official mourning to show solidarity with the people of the United States.

e. *Press and Radio Coverage*.

The controlled Dominican press and radio gave extensive coverage during 1952 to events in the United States, our international activities, and our policy statements. Comment on President Eisenhower was uniformly favorable and the Administration's announced policy of devoting more attention to Latin America was applauded, as was Dr. Milton Eisenhower's visit and report.[12] AP and INS provided most of the foreign coverage for local press and radio, but many articles attributed to *El Caribe* special correspondents also appeared. News coverage was full but editorial comment infrequent, even on policy declarations of greatest importance.

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[10] Robert A. Taft (R.–Ohio).

[11] Fred M. Vinson.

[12] Between June 23 and July 29, 1953, Dr. Eisenhower visited the countries of South America, as the Personal Representative of President Eisenhower, to conduct a factfinding mission; see the editorial note, p. 196.

This picture of favorable coverage was sadly blotched by the attack on Assistant Secretary Cabot, the campaign against former Assistant Secretary of State Spruille Braden and Ambassador Ellis Briggs, the occasional vilification of other American officials, and the outrageous assault on the American companies.

2. *United States' Assistance to the Dominican Republic*

a. *In the International Field.*

The United States continued to carry a preponderant share of the political, financial and military burdens of defending the free world against communism. Trujillo occasionally acknowledged this, but his media of propaganda gave so much space to apotheosizing him as the original anti-communist that our efforts seldom received adequate recognition. While the *Jefe* controls all local media we cannot hope to present our case more fully, but we should not ourselves lose sight of the overwhelming magnitude of our contribution merely because Trujillo screams his anti-communism from the housetops, successfully represses the opposition to his own regime, and casts inexpensive votes in the United Nations in favor of measures and candidates supported by other anti-communists. We should never hesitate to present these facts in our diplomatic conversations as forcefully as the disparity between Trujillo's actions and the exuberance of his declaration warrants. Indeed it is insolent of Trujillo to claim any assistance or gratitude when the modesty of his contribution is assessed in the light of our tremendous sacrifices and impressive achievements. The cumulative benefits reaped by the Dominicans from our efforts to contain international communism clearly outweigh their limited contribution and should put them in a posture of offering rather than expecting favors.

b. *Bilateral Programs.*

We continued, during 1953, to give the Dominicans valuable assistance through IIAA and IAGS, and we committed ourselves to additional aid under the Military Assistance Agreement.

Our expenditures for technical assistance totalled about $300,000. We built up our agricultural program by sending an additional technician; activated a nurses' training program; sent technicians to survey prospects for electric development, deep well drilling, fishing, and nurses' training; granted ten exchange of persons scholarships; and agreed to the expenditure of *Servicio* funds for the construction of an additional dormitory at the jointly-supported industrial art school. The only Dominican requests for assistance which were not approved by the Embassy were for a social worker and a health *servicio*. The request for a health *servicio* is still under consideration pending the receipt of additional information from the Dominicans.

IAGS, with a staff of six American employees, continued its useful cartographic work. Some of its first results were turned over to the Dominicans in 1953.

Late in March we sent a survey team to estimate support requirements for the Dominican units pledged under the Military Assistance Agreement. These may run to a million dollars in the first year. However, no MAAG personnel arrived until December, and no deliveries of matériel were effected in 1953.

c. *General Cooperation.*

During Trujillo's visit to the United States, from December 1952 to March 1953, every effort was made to make him feel that he was a welcome guest, although his official status did not entitle him to the treatment of a Head of State or even a Foreign Minister. We supported Dr. Jesus Maria Troncoso for a Vice Presidency at the London Sugar Conference;[13] and we expressed our appreciation to the Dominican Government in October for its cooperation in the Third Part of the VII UNGA Session.

In June and July we aided representatives of the Dominican national arms factory, who had attempted to export certain armaments from Germany illegally. We later helped the Dominicans to obtain export permits for German machinery for their arms factory, despite strong French opposition. We were generous in awarding military scholarships to Dominicans throughout 1953, and we offered to sell them jet aircraft as soon as they became available. We were not prompt in replying to a request for information for quotations on the prices of trainer aircraft, and we were very slow in delivering F–47 fighter planes which the Dominicans paid for in 1952. However, we sent seven technicians in January to help the Dominicans learn to service these aircraft, and the team remained until the end of February at the request of the Chief of Staff of the Dominican Air Force.

We returned friendly but temporizing replies to Dominican requests for support for their candidacies for an ECOSOC seat and to serve as host to the XI Inter-American Conference.

CONCLUSIONS

Our relations with Trujillo in 1953 illustrate with sad clarity the appalling difficulties of dealing with a brillant but egocentric dictator. His unpredictability, vengefullness, pride, greed for praise and worldly goods, complete identification of his opponents with the communists, wily maneuverings, propensity for intrigue, and lack of a sense of proportion created an unrelieved atmosphere of uncertainty, while periods of limited optimism alternated with weeks of pessimism and conflict.

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[13] The conference was held from July 13 to Aug. 24, 1953; pertinent documents are in file 398.235.

Trujillo gave us a weird mixture of abuse and praise. He cooperated well on anti-communist measures in the United Natons and in bilateral military programs, but he avoided sending troops to Korea. His violent attacks and encroachments on American capital contrasted fantastically with his efforts to attract new investments. The collaboration cost Trujillo virtually nothing in terms of men or money. Indeed, it could scarcely have been withheld by any anti-communist, genuine or feigned. His abuse of our present and former public officials and his attacks on American capital weakened our prestige here and elsewhere far more than his cooperation bolstered it. Even his support was not an unmixed blessing at times because of his unsavory reputation among the more democratic states.

It is our considered opinion that only an overriding need for Trujillo's military cooperation can justify a continuance of our relations with him on any level other than that of polite but ineffusive diplomatic intercourse. Our cooperation can no longer be justified on the ground that the regime is beneficial to the continued political and social evolution of the Republic because its activities, since Trujillo went into the sugar business about four years ago, have been, on balance, damaging to the economic stability of the country and to the further expansion of property holding classes. Indeed the incipient Dominican *bourgeoisie* is now being squeezed brutally between the heavy millstones of Trujillo's rapacity and the urgent needs of the working classes. It has been argued that our technical cooperation program is designed to help the Dominican people, and that they should not be deprived of it because of the errors of their leader. But it is unfortunately true that Dominican propaganda media hail all bilateral and international assistance programs as fruits of Trujillo's diplomacy. Since they contribute appreciably to his prestige, it is naive to argue that we can avoid an undesirable linkage to his regime because they are designed to benefit his people. We will lay ourselves open to far more serious recriminations to the extent that our military cooperation strengthens Trujillo's armed forces. These are maintained and utilized solely to prevent any subversion of his regime, as he himself made abundantly clear when he evaded the troops for Korea issue.

The Guided Missiles and IAGS programs which clearly are of primary interest to us rather than the Dominicans, are the only programs which do not produce an unsatisfactory identification of the United States with Trujillismo. The Guided Missiles Agreement probably is the only one the loss of which would be embarrassing to us.

Since this is the case, the long and unhappy record of our relations with Trujillo, the accumulation of evidence that his megalomania is becoming increasingly dangerous, his encroachments on the middle class and private enterprise, his apparent abandonment of sound economic policies with a resultant deterioration in the economic situation of the Republic, and the current assault on American investment, all suggest that a thorough reconsideration and reevaluation of our policy toward Trujillo is essential and perhaps overdue.

Should we decide to let our non-essential programs taper off gradually, there is no reason to assume that we could not, with the application of proper pressures, retain the concessions we require under the Guided Missiles and the IAGS Agreements. Continued if grudging collaboration with us on most anti-communist issues could scarcely be withheld because Trujillo is irrevocably and psychopathically wedded to an anti-communist policy. But we probably should assume his collaboration in future rather than ask for it. We should certainly emphasize the importance of our contribution more vigorously and persistently.

If we are to protect our influence in favor of representative government among other nations of the free world, regain the respect of the Dominican people, and protect American investors here and elsewhere, we must soon make it clear that Trujillo's recent conduct and present policies are quite unacceptable, and that we are not trying to saddle the Dominican people with his regime indefinitely.

The leftist reactions which followed the death of Gomez[14] in Venezuela and the collapse of the Ubico[15] regime in Guatemala emphasize the possibility that a similarly violent swing may occur in the Dominican Republic. If we can subtly persuade the Dominicans that we are using but not supporting Trujillo, our chances of reaching a satisfactory accommodation with any successor regime will improve considerably. What we must avoid at all costs is the identification of the United States with Trujillismo to an extent which would make it impossible for even a conservative successor to cooperate fruitfully with us.

[Here follows discussion of the Dominican Republic's relations with other nations, and its participation in international organizations.]

For the Ambassador:
RICHARD A. JOHNSON
First Secretary of Embassy

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[14] Juan Vicente Gómez, President of Venezuela, 1908–1935.
[15] Jorge Ubico Castañeda, President of Guatemala, 1931–1944.

739.00/5–554

The Ambassador in the Dominican Republic (Pheiffer) to the Department of State

SECRET CIUDAD TRUJILLO, May 5, 1954.

No. 977

Ref: Embassy despatches Nos. 621, January 8, 1954,[1] 806, March 1, 1954,[2] 920, April 6, 1954[3] and 957, April 27, 1954.[4]

Subject: Summary and Conclusions of the Embassy's Review of Political and Economic Developments in the Dominican Republic during 1953.

The four sections of the Embassy's review of Political and Economic Developments in the Dominican Republic during 1953 have now been submitted as the despatches cited above. This despatch summarizes information contained therein and attempts to draw some broad conclusions. It also covers submittals of a combined Table of Contents and a Secret Supplement to Despatch No. 957 of April 27, 1954.

Summary

Much additional evidence accumulated during 1953 in support of our earlier hypothesis that Generalissimo Trujillo's megalomania is both dangerous and progressive. Since he is still the only source of policy and the omniscient administrator of the Dominican Republic, his mental condition demands careful and constant study. His insatiable craving for adulation now leads him to demand incredibly servile, fantastic, and frequent adulatory demonstrations and panegyrics. His self-absorption renders him dangerously insensitive to the reactions of others and offends important individuals and governments. His distorted sense of proportion countenances wild extravagances, including steps toward self-deification. Nevertheless, he still performs brillantly in many spheres and remains "the indispensable and indisputable leader of the Dominican people".

Last year's rapid fluctuations in the Dominican-American political and economic relations clearly illustrated the difficulties of doing business with an unreliable and egocentric dictator. Although Trujillo cooperated fully with us in the military field and in international organizations, his attacks on American capital reached hitherto unprecedented intensity and his unwarranted blackguarding of present and former Departmental officers injured our prestige here and elsewhere. His relations with other American States were dominated by attempts to throw a *cordon sanitaire* around Guatemala, Costa Rica and possibly Haiti, and by efforts to strengthen his relations with rightist governments of Middle America.

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[1] Despatch 621, from Ciudad Trujillo, contained a review of political and economic developments in the Dominican Republic during 1953 (739.11/1–1854).

[2] An extract from the referenced despatch is printed *supra*.

[3] Despatch 920, from Ciudad Trujillo, reported on general political developments in the Dominican Republic during 1953 (739.00/4–654).

[4] Despatch 957, from Ciudad Trujillo, contained the Embassy's annual economic report for the Dominican Republic for 1953 (839.00/4–2754).

He continued to woo Spain; but his prospects for closer collaboration with the United Kingdom dwindled because its demand for Dominican sugar declined and because he offended the British with a singular manifestation of his vanity. Commercial relations with Germany, Italy, Japan and Spain were intensified, and some evidence accumulated that he may be veering toward bilateral clearing agreements. The Dominicans continued to participate vigorously in international organizations but won few triumphs, except for a substantial quota under the international sugar agreement. They were consistently helpful in the anti-communist struggle.

Trujillo's political machine showed a few signs of wear and maladjustment in the face of a modest deterioration in the economic situation. He curtailed beneficial expenditures heavily but clever propaganda concealed this while magnifying his past and current achievements. Although some evidences of inefficiency in the Armed Forces, deterioration in the positions of the middle and laboring classes and signs of scattered discontent could be discerned, the regime's stability seemed unimpaired.

Dominican exports declined approximately 10% during 1953, but a corresponding adjustment in imports avoided serious balance of payment difficulties. The conclusion of the International Sugar Agreement mitigated fears about the disposal of the 1953–4 sugar crop, and high coffee and cacao prices induced moderate optimism. Nevertheless, the country experienced a minor depression during the second and third quarters although business conditions and employment were somewhat better at the year's end.

In a series of complicated financial transactions, Trujillo cancelled the internal public debt and bailed himself out of the sugar industry. His propaganda lauded these moves, but they actually doubled the Republic's financial liabilities, inflated the credit structure, and undermined the stability of the banking system and the currency. Considerable uncoordinated expenditures on economic development increased national productivity somewhat; but the measure of diversification achieved failed to counter a further expansion in sugar cultivation, and the climate for foreign investment deteriorated badly. Trujillo extended totalitarian controls to new areas of the economy and his greed for personal aggrandizement showed no signs of abating. His personal fortune and income and the scope of his private economic interests expanded impressively.

Conclusions

1. Trujillo's psychosis has already driven him into several unstatesmanlike actions and it now threatens some of the solid achievements of his earlier years. It is so far advanced that we must take full account of it, both positively and negatively, in our day to day dealings with him. Nevertheless, he still dominates his people and probably will continue to do so in his remaining years unless his malady takes a rapid change for the worse or external circumstances intervene. However, it seems unlikely that he will reach an exceptionally old age.

2. His political machine is still strong and its agencies of repression are more than adequate for all likely contingencies. But the disparity between Trujillo's propaganda claims and his performance is now fantastically great, and the public's reaction, when his dishonesty is finally revealed, will be correspondingly violent. Present evidences of discontent are unimportant but dissent could increase rapidly if a major depression should occur. In this case the *Jefe* probably will exploit xenophobia and class and racial prejudice to turn popular discontent away from himself. The situation after Trujillo's death is unpredictable, but we doubt that any of his relatives or intimates could hold things together very long.

3. We should make greater efforts to prevent identification of the United States with Trujillo in the minds of the Dominican people in light of his growing excesses and the likelihood that he has only a few more years. Our cooperation can no longer be justified on the ground that his regime is beneficial to the continued political and social development of the Dominican Republic and only an overweening need for his military assistance should sanction a continuance of our relations with him on any level other than that of polite but uneffusive diplomatic intercourse.

Trujillo may honestly desire to maintain the closest possible relations with the United States, as he frequently alleges—but only on his own terms, including our acquiescence in his eventual absorption of most of the American capital invested here. We can never hope for stability in our relations with him and we must continue to expect a weird mixture of abuse and praise. His recent efforts to improve his public relations in the United States must be received with grave suspicion, in light of his possible goal of mobilizing opinion against the Department. We must discount very heavily the value of his collaboration in the anti-communist campaign because of his frequent abuse of our officials and of American capital, and because collaboration with him injures our reputation with more respectable governments of the international community.

4. The basic imbalance in the Dominican economy has not been remedied and prospects for early improvement are poor. Consequently a major depression can be expected if prices of sugar, coffee and cacao decline simultaneously, if sugar prices drop substantially below present levels, of if the present sellers' markets for coffee and cacao disappear.

Trujillo's greed for wealth and power and his tremendous energy are driving him irresistibly toward broader and deeper intervention in the Dominican economy. His personal fortune and income is already enormous and his insatiable thirst for power is rapidly bringing the other areas of the economy under totalitarian control. A reversal of previously sound fiscal, banking and monetary policies occurred with startling suddenness during 1953, in consequence of his efforts to liquidate and profit on his investment in the Dominican sugar industry. His greed for wealth and power also compelled him to intensify his attacks on foreign enterprises. Unless these trends are reversed, the Dominican Republic will soon have a completely managed economy, including a fiat currency and exchange controls, and it will cease to offer any attractions for foreign capital. Since Trujillo's social philosophy now seems to resemble Peron's, few observers take a sanguine view of the prospects of the Dominican middle class.

These gloomy observations on economic trends do not warrant the conclusion that a major deterioration in the economic and social situation would seriously embarrass the regime, although it would greatly complicate the problems of any successor government. On the contrary, we are constrained to feel that propaganda and force will enable Trujillo to go on milking the Dominican cow with increasing thoroughness until his death. The precedents offered by Hitlerite Germany, the USSR, Franco's Spain and Peron's Argentina incline us towards this view.

5. In light of the developments summarized above we recommend most strongly that a basic review of our Policy Statement on the Dominican Republic be undertaken. We also recommend that the Department consider making much more information about the Dominican Republic available to our people, either directly or by encouraging respectable journalists to come here, with a view to counteracting Trujillo's misleading and inaccurate propaganda especially about investment conditions.

For the Ambassador:
Richard A. Johnson
First Secretary of Embassy

811.235/6–1154

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

OFFICIAL USE ONLY [WASHINGTON,] June 11, 1954.

Subject: Dominican Views on U.S. Sugar Legislation

Participants: Manuel de Moya, Dominican Ambassador
Dr. Jesús María Troncoso S., Dominican Minister without Portfolio
ARA—Mr. Holland
MID—Mr. Warner

Ambassador de Moya and Dr. Troncoso called on Assistant Secretary Holland by appointment to present a note[2] setting forth in general terms Dominican aspirations with respect to the United States sugar market. These aspirations are, briefly, to secure a larger share in that market through an increase in the comparatively small sugar quota now assigned to the Dominican Republic.

Dr. Troncoso explained that this is a long-range goal and that the Dominican Republic realizes that hearings on the present bill to amend the Sugar Act[3] are not likely to produce such a change in favor of the Dominican Republic. Dr. Troncoso expressed the hope, in fact, that the Dominican Republic's present quota would not be adversely affected by any amendments to the Act. The Dominican position is that they hope to hold their present quota unchanged for now but with the hope of increasing it eventually. They feel that an increase in their quota would be only just and fair since the Dominican Republic continues to purchase the greatest share of its imports from the U.S. while the U.S. takes only a very small percentage of Dominican exports of its principal product, sugar.

Mr. Holland pointed out that the Department of State is very interested in the Dominican views on sugar problems and suggested that it would be useful to discuss them in greater detail with the Department's sugar experts. It was suggested accordingly that Dr. Troncoso meet with Mr. Cale, ARA: AR, next week[4] for that purpose. Dr. Troncoso thanked Mr. Holland for the suggestion, indicating he would be happy to follow it. He and Ambassador de Moya departed shortly thereafter after exchanging the customary amenities with Mr. Holland.

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[1] Drafted by Norman E. Warner of the Office of Middle American Affairs.

[2] Dominican Embassy note, dated June 9, 1954, not printed (811.235/6–954).

[3] Reference is to the Sugar Act of 1948 (Public Law 388), approved Aug. 8, 1947; for text, see 61 Stat. 922.

[4] No memorandum of conversation between Dr. Troncoso and Mr. Cale fitting the description here was found in Department of State files.

MID files, lot 57 D 148, "Foreign Relations—1954"

Memorandum by Charles H. Whitaker of the Office of Middle American Affairs

OFFICIAL USE ONLY [WASHINGTON,] December 8, 1954.

BALANCE SHEET, DECEMBER 1, 1954

DOMINICAN REPUBLIC

The United States would like the Dominican Republic to take action on:

1. FCN Treaty

We presented a draft of such a treaty to the Dominican Government about three years ago. The Dominicans have been sitting on it ever since, despite our periodic prodding.

2. Creation of more favorable investment climate

While Dominican harassment of American business has subsided of late, investors are generally not reassured and fear that a new campaign may be reopened at any time. The investment picture is clouded also by recent Dominican moves to establish increasing state control over industrial and commercial enterprises in the Dominican Republic.

The Dominican Republic would like the United States to take action on:

1. A request for 10 M–24 tanks, 75 75mm recoilless weapons and 25 F–86–F Sabrejet fighters. There has been no unusual delay with respect to these requests.

2. Increased participation for Dominican sugar in the U.S. market.

3. Participation in the International Fair of Peace and Brotherhood in the Free World, scheduled to open in December 1955 in Ciudad Trujillo to celebrate 25 years of the Era of Trujillo.

ECUADOR

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND ECUADOR[1]

Editorial Note

On January 15, 1952, representatives of the United States and Ecuador initiated negotiations at Quito for a bilateral military assistance agreement. Documents pertaining to the negotiations are in Department of State file 722.5 MSP for 1952. For text of the Agreement, signed at Quito, February 20, 1952, and entered into force on the same date, see Department of State Treaties and Other International Acts Series (TIAS) No. 2560, or *United States Treaties and Other International Agreements* (UST), volume 3 (part 3), page 4162.

Concurrent with the negotiations for the military assistance agreement, representatives of the United States and Ecuador conducted negotiations for a related bilateral military plan. The "Plan of the Governments of Ecuador and the United States of America for Their Common Defense," signed at Quito, February 20, 1952, and effective the same date, was transmitted to the Department of State under cover of despatch 666, from Quito, dated February 20, 1952, not printed (722.5 MSP/–2052).

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1394 ff.

722.5 MSP/1–1552: Telegram

The Secretary of State to the Embassy in Ecuador[1]

SECRET WASHINGTON, January 18, 1952—1:02 p. m.

193. Dept approves ur statement to FonMin[2] urtel 249 Jan 15.[3]

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[1] Drafted by H. F. Arthur Schoenfeld of the Office of the Special Assistant to the Secretary for Mutual Security Affairs; cleared with the Bureau of Inter-American Affairs, the Offices of Regional American Affairs and South American Affairs, the Office of the Assistant Legal Adviser for Economic Affairs, and the Department of Defense; approved and signed for the Secretary by Deputy Assistant Secretary Mann.

[2] L. Neftalí Ponce.

[3] In the referenced telegram, Ambassador Daniels informed the Department of State that Foreign Minister Ponce had raised the question whether equipment supplied to Ecuador under provisions of the military assistance agreement could be used for purposes of self-defense, and that he had replied as follows: "primary purpose bilateral agreement related to continental defense against extra-continental aggression and that other inter-Amer agreements relating to intra-continental aggression remained unaffected and in full force." (722.5 MSP/1–1552)

Contemplated US aid will be provided in context US–Ecuador concern with danger aggression from outside hemisphere. US MSA was presented to Congress and written on such basis. US position on use of equipment for def against other forms of aggression depends on situation then existing and on action taken by appropriate organ under existing inter-American arrangements. US cannot, until that time, state what its view will be on request which might then be made by Ecuador under para 2 Art 1 draft bilateral.

We do not wish either to modify existing text of bilateral in this respect or to enter into any form of understanding on this question and hope FonMin will not further pursue matter. In event he presses matter you should avoid replying to FonMin query in terms which might be interpreted as applying specifically to intra-continental aggression for reason that Sec 401 of MSA of 1951[4] makes no such specific ref.

ACHESON

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[4] Reference is to the Mutual Security Act of 1951 (Public Law 165), approved Oct. 10, 1951; for text, see 65 Stat. 373.

722.5 MSP/1–2252: Telegram

The Ambassador in Ecuador (Daniels) to the Department of State

SECRET PRIORITY QUITO, January 22, 1952—8 p. m.

254. This afternoon I explained fully to FonMin Dept's views re bilateral military assistance agreement pursuant Deptel 193 Jan 18, 1 p.m.[1] Ponce expressed full understanding our position, but said problem was very delicate one for Govt Ecuador, because of political considerations. He said highly desirable that agreement not be subject political attack either in public or in Ecuadoran Congress, even on hypothetical basis. Having in mind our own need to stay within letter and spirit of MSA and internatl commitments, Ponce suggests fol amendment to Art 1 of proposed text:

> Para 1, third sentence "Such assistance shld be so designed as to promote the defense and maintain the peace of the western hemisphere and be in accordance with the defense plans under which both govts will participate in missions important to the defense and the maintenance of the peace of the western hemisphere".
>
> Para 2, lines 5 and 6 "under which the two govts will participate in missions important to the defense and the maintenance of the peace of the western hemisphere".

In suggesting these additions to those two sentences, Ponce called attn to the phraseology of first para preamble, where same words appear.

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[1] *Supra.*

While appreciating reluctance Dept make any change in present text, I am afraid an unyielding or rigid attitude our part may not be in our best interest. Obviously our interest avoid political attacks on Ecuadoran Govt based on proposed bilateral. Equally our interest support concept that "maintenance of peace" desirable. Ponce indicated that with this point settled he anticipated no difficulty rapid conclusion bilateral agreement. This afternoon military team informed me that prospect good for early conclusion supplementary military plan, subject further review by govt. Accordingly if proposed amendment can be accepted by Dept it appears probable entire negotiation can be wound up promptly.

If Dept can accept proposed amendment in Ecuadoran bilateral agreement, it may wish consider including identical phraseology in proposed Peruvian bilateral and possibly others.

Tel instrs.[2]

DANIELS

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[2] Department of State telegram 196, to Quito, dated Jan. 24, 1952, authorized Ambassador Daniels to accept the changes in the draft bilateral military assistance agreement suggested by Foreign Minister Ponce inasmuch as they conformed "to our position that any indication US aid will be applied specifically to inter-continental aggression be avoided." (722.5 MSP/1–2252)

722.56/1–852: Airgram

The Secretary of State to the Embassy in Ecuador[1]

CONFIDENTIAL WASHINGTON, January 26, 1952.

A–191. Reference Embassy's confidential despatch No. 514, January 8, 1952[2] regarding the possible purchase from Czechoslovakia by the Ecuadoran Government of Czechoslovak armaments for the Ecuadoran Army, and requesting the Department's views in the premises.

Any views which the U.S. might have on this proposed transaction would be based on (1) the form of payment which would be used by Ecuador in concluding this transaction in East-West trade; (2) the effect this transaction would have on the long-range U.S. policy of standardization, and on the continued usefulness of the U.S. military mission in Ecuador; and (3) whether the equipment included in this transaction is actually of the type which might be furnished by the U.S. as grant aid under the Mutual Security Program for the preparation of units of the Ecuadoran armed forces to perform defense missions mutually agreed upon, or as reimbursable aid for the general purposes of Ecuadoran defense.

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[1] Drafted by Duncan A. D. Mackay of the Office of Regional American Affairs; cleared with the Office of the Special Assistant to the Secretary for Mutual Security Affairs, the Offices of South American Affairs and Regional European Affairs, and the Departments of Defense and the Army.

[2] Not printed (722.56/1–852).

1. *East–West Trade*—While the US. Government would not be in a position at present to object to a transaction of this sort if it were based purely on currency payments, it must consider, both as a matter of law and as a matter of policy, the eligibility of foreign governments which engage in certain types of East–West trade to receive military, economic or financial aid from the United States. If, for instance, in partial payment for these armaments, Ecuador were to export to Czechoslovakia a strategic material included in List B issued under Title I of the Battle Act,[3] the U.S. would, under the terms of this legislation, have to consider terminating military, economic or financial assistance to Ecuador. Or if, for example, Ecuador were to return to Czechoslovakia certain of the arms it received under the original transaction, as part of a trade-in in order to receive additional arms, or to ship to Czechoslovakia as payment any of the items included in List A, issued under Title I of the Battle Act, termination of military, economic or financial assistance to Ecuador would be mandatory.

2. *Standardization*—It has been determined by the Department of the Army that the arms which Ecuador now wishes to buy from Czechoslovakia are types which the U.S. is in a position to supply. Pricing and availability data on comparable U.S. arms were furnished the U.S. military negotiating team prior to their departure for Quito. It is still part of the long-range military policy of the United States to bring about, as far as may be possible, standardization of the arms and armament of the Western Hemisphere, in order to simplify logistic support in the event of global conflict. Following World War II, Ecuador received from the U.S., as a nucleus of U.S. equipment, a substantial amount of surplus U.S. arms as an "interim program", and a U.S. military mission (as well as a naval and air force mission) was established in Ecuador to train the Ecuadoran Army in their use. Since then, the Department has no record that the Ecuadoran Government has ever submitted a request to purchase from the United States under section 408(*e*) of the Mutual Defense Assistance Act,[4] any additional small arms, or maintenance equipment to service this type of equipment which the U.S. had previously furnished them. In view of this, any additional purchase by Ecuador of Czechoslovak arms would appear not only to complicate further their logistical support, but also to reduce the value of the U.S. military mission.

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[3] Reference is to the Mutual Defense Assistance Control Act of 1951 (Public Law 213), approved Oct. 26, 1951, commonly called the Battle Act after Representative Laurie C. Battle (D.–Ala.): for text, see 65 Stat. 644.

[4] For text of the Mutual Defense Assistance Act of 1949 (Public Law 329), approved Oct. 6, 1949, see 63 Stat. 715.

3. *Mutual Security Program*—The Department understands from the Department of Defense that few of the arms listed in Colonel Vaquero's list are included in the equipment which might be furnished Ecuador as grant aid under the Mutual Security Program. If this question is raised by the Ecuadorans in the current bilateral discussions, it should be made clear that every reasonable effort will be made to supply Ecuador, on a reimbursable basis under section 408(*e*) of the MDAA, as amended, with her normal equipment requirements for internal security and national defense if she should submit such a request. Military equipment furnished under the Mutual Security Program, however, will be available only for the preparation of units of the Ecuadoran armed forces to perform hemisphere defense missions which are mutually agreed upon.

ACHESON

Editorial Note

On June 1, 1952, José María Velasco Ibarra was elected President of Ecuador to succeed President Galo Plaza Lasso. In a memorandum to Assistant Secretary Miller, dated June 3, 1952, commenting on the election, Edgar L. McGinnis, Jr. of the Office of South American Affairs stated in part that "Because of his inconsistent and unpredictable nature, it is believed that Velasco's election is less desirable from the standpoint of US policy than [Conservative Party candidate Ruperto] Alarcón's election would have been." He further stated the following: "From the standpoint of governmental stability, it appears that a Velasco administration would be weak due to the political animosities dating back to his overthrow in 1935 and again in 1947. From the viewpoint of the communist question, it is believed that Velasco is definitely anti-communist." (722.00/6–352)

In an exchange of letters, dated June 12 and June 20, 1952, Ambassador Daniels and Assistant Secretary Miller discussed the possibility of an unofficial visit by President-elect Velasco Ibarra to the United States which would provide an opportunity for him to clarify his political views to the press (Miller files, lot 53 D 26, "Ecuador"). In telegram 398, from Quito, marked eyes only for Assistant Secretary Miller, Ambassador Daniels stated that he had requested outgoing President Plaza to take the initiative in seeking the President-elect's reaction to this idea (722.11/6–2652). No such visit materialized.

722.5621/7-1152

Memorandum by the Special Assistant to the Secretary for Mutual Security Affairs (Martin) to the Director of the Office of Military Assistance, Department of Defense (Olmsted)[1]

SECRET [WASHINGTON,] July 11, 1952.

Subject: Request by the Government of Ecuador for Two Destroyer Escorts.

Reference is made to your memorandum dated March 18, 1952,[2] stating that while there is no change in the availability for sale of destroyer escorts desired by the Ecuadoran Government (Ecuador Case No. 1), the Department of Defense is prepared to offer for sale to the Government of Ecuador an operational frigate from among those recently returned by the Soviet Government and now employed in patrol duty in Korean waters, on the condition that the Ecuadoran Government would agree to maintain and operate such a frigate in Korean waters as long as the United Nations military operations continue in that theater.

This Department was requested to transmit the foregoing offer to the Government of Ecuador, provided that the Department of State approved the proposed transaction from a political and economic viewpoint.

The Department, after consulting with Ambassador Paul C. Daniels on this proposal, recommends that, in view of the political implications contained in the principal condition attached to it, the offer in its present form should not be made to the Ecuadoran Government. The Department of State believes that the Government of Ecuador would be more likely to regard this offer as an effort on the part of the United States to force a decision by Ecuador on assistance to the United Nations in Korea, rather than as a response to its request for the assistance of this government in the procurement of an addition to its naval forces, and that an effort to impose such a condition would complicate our relations with the Government of Ecuador. While it is recognized that identical offers were accepted by the Governments of Colombia and Thailand, each of these governments had already decided to commit a naval unit in Korea, and requested the additional frigate in order to permit its naval forces to continue in that theater of operations.

If at some future date, it should become possible for the Department of Defense to offer a frigate, or some other suitable patrol type vessel, to Ecuador for use in hemisphere defense, without requiring, as part of the transfer, a political decision on the part of Ecuador involving the commitment of armed forces outside the hemisphere, the Department of State would be prepared to recommend that such an offer be made.

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[1] Drafted by Mr. Mackay, with the assistance of Mr. Jamison; cleared with the Office of the Special Assistant to the Secretary for Mutual Security Affairs, the Office of South American Affairs, and the Office of United Nations Political and Security Affairs.

[2] No copy of the referenced memorandum was found in Department of State files.

EDWIN M. MARTIN

722.5 MSP/12–452

Memorandum of Conversation, by George O. Spencer of the Office of Regional American Affairs

SECRET [WASHINGTON,] December 4, 1952.

Subject: Military Problems Raised by the Ecuadoran Ambassador

Participants: José Ricardo Chiriboga Villagómez—Ecuadoran Ambassador
Paul C. Daniels—American Ambassador, Quito
Mr. Atwood—OSA
Mr. McGinnis—OSA
Mr. Spencer—AR

The major part of this meeting was devoted to a discussion of the following military problems raised by the Ecuadoran Ambassador:

First. The Ambassador indicated that his Government was concerned over the possibility that the U.S. Government, under Article V of the Bilateral Military Assistance Agreement between Ecuador and the U.S., would send large numbers of military personnel to Ecuador to implement the grant-aid military assistance program and that these personnel might be sent without the prior consent of the Ecuadoran Government. He believed that U.S. military training missions now in Ecuador should be used to implement the program. The Ambassador was informed that the question of how many U.S. personnel would be required for assignment to Ecuador and the question of whether they should be assigned to training missions or maintained apart from the missions were questions now being considered by the interested agencies of the U.S. Government. However, he was assured that no U.S. personnel would be sent without the prior approval of the U.S. Ambassador, who obviously would obtain the consent of the Ecuadoran Government before indicating his approval to the State Department. The Ambassador was reminded that the U.S. has an important interest in assuring that Ecuadoran armed forces are properly trained in the use of programmed equipment, so that they may effectively discharge the hemisphere defense missions Ecuador has agreed to assume under the Bilateral Military Assistance Agreement and the Bilateral Military Plan. He was informed that in the event Ecuador should refuse to receive personnel which competent U.S. authorities believe are required to provide necessary training, the question might arise as to whether Ecuador had acted in violation of the Agreement.

Second. The Ambassador stated that the Ecuadoran armed forces did not have adequate facilities to house much of the anti-aircraft equipment being provided Ecuador under the program and he asked whether it would be possible for the U.S. to furnish necessary housing as grant-aid. He was informed that it was unlikely that housing facilities could be provided under the program. He was told that aside from any possible legal prohibition against providing housing assistance, there was a question of precedence which would require consideration, in short, if such type of assistance should be provided Ecuador, it might be necessary to provide similar assistance to other countries, upon request. It was explained that this problem might create difficulty in approving the Ecuadoran request. The Ambassador was advised to raise the question of housing with military training missions in Ecuador.

Third. The Ambassador referred to Ecuador's need for receiving certain assistance for Ecuadoran naval and infantry units. He was advised that requests for additional assistance under the program should be submitted to U.S. military training missions in Ecuador, and that the Ecuadoran Service Attachés in Washington might profitably raise these matters, simultaneously, with the U.S. Defense Department.

Fourth. The Ambassador referred to the provision in the U.S. military mission agreement which prohibits the Ecuadoran Government from accepting any other foreign military mission. He stated that Brazil had offered to send a military mission to Ecuador without cost to the Ecuadoran Government, and inquired whether the prohibition in the present agreement would prevent Ecuador from accepting the Brazilian offer. He said that the Brazilian mission would be at the general staff level and would not duplicate U.S. mission activities. The Ambassador wished also to know whether the U.S. would be willing to remove the prohibition when the U.S. mission agreement comes up for renewal next year. The Ambassador understood that both Brazilian and U.S. military missions were maintained in Paraguay. He was informed that this was a question which would have to be discussed with the Defense Department and that in reaching a decision as to whether the sending of a Brazilian mission would be a breach of the mission contract the U.S. would no doubt wish to know what precise activities the Brazilian mission would be engaged in. It was mentioned to the Ambassador that the Brazilian mission to Paraguay is believed to provide training in horse cavalry, whereas the U.S. mission is engaged in other types of training. It was agreed that the Department would obtain from the Defense Department full information regarding the types of training provided by the present U.S. military mission and that Ambassador Daniels upon his return to Ecuador would obtain from the

Ecuadoran Government more detailed information regarding the proposed functions of the Brazilian Mission, so that the problem could be objectively analyzed by the U.S.

822.10/1-253

Memorandum of Conversation, by Edgar L. McGinnis, Jr., of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] January 2, 1953.

Subject: Export-Import Bank Loans for Quevedo–Manta Highway and Airports at Quito and Guayaquil.

Participants: The Ecuadoran Ambassador
Mr. Thomas C. Mann, Acting Assistant Secretary for Inter-American Affairs
Mr. McGinnis, OSA

After discussing other subjects with Mr. Mann, Ambassador Chiriboga said that he wished to urge the Department to impress upon the Export-Import Bank the need for prompt action on the Quevedo–Manta highway loan[1] and the airports credit.[2] The Ambassador said that his Government had reviewed the various outstanding credits with the Export Bank and had decided to place first priority upon these two loans. He asserted that the previous administration had supported a number of unrelated loan applications at the Bank which had resulted in some confusion as to which were the most important and that wishing to avoid a similar situation the Velasco administration had decided to concentrate upon the two loans mentioned. Ambassador Chiriboga went on to say that it was vital for his Government to show early progress upon its promises to the people for economic development and added that in the long run no Ecuadoran administration could remain in office without making concrete progress in the economic condition of the country. Ecuador, he said, was firmly wedded to the policy of improving the living standards of the people through the development of the country's economic resources and that highways and air communications were of first importance in this program.

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[1] Reference is to an Export-Import Bank loan of $1.72 million approved Oct. 8, 1947, increasing an earlier credit of $1 million extended July 13, 1945, to assist in financing the construction of the Quevedo–Manta Highway. Between 1947 and 1951, the Bank made no disbursements under this $2.72 million credit, because of Ecuador's failure to enter a contract with a suitable U.S. engineering firm. Early in 1952, the Bank disbursed a total of about $400,000 to cover expenditures under a contract signed by Ecuador with the Moore Construction Company, but this contract proved unsatisfactory and was terminated. (Memorandum by Mr. Corbett to Mr. Waugh, dated Aug. 14, 1953, 103 XMB/8–1453)

[2] Reference is to an Export-Import Bank loan of $1 million, in favor of the Republic of Ecuador, approved July 19 1951, to assist in financing the costs of improving and expanding commercial airport facilities at Quito and Guayaquil. Up to the date of this memorandum, the Bank made no disbursements under this credit, because of the failure of the Ecuardoran Government to supply it with requisite information concerning cost breakdowns. (Memorandum by Mr. Corbett to Mr. Waugh, dated Aug. 14, 1953, 103 XMB/8–1453)

With respect to the highway credit, the Ambassador said that he could see no obstacle to early action by the Export-Import Bank. He related that specifically, Ecuador awaited the Bank's approval of terms under which his Government could call for bids from construction firms. He added that once this approval were obtained, Ecuador could go forward with the long pending highway. The Ambassador indicated that the Bank had assured him that the existing $2.7 million highway credit would be substantially increased to provide for increased costs of the Quevedo–Manta highway under present conditions. Mr. Mann assured the Ambassador that the Department would discuss this matter with the Bank and take whatever action it appropriately could to expedite action by the Bank.

Ambassador Chiriboga then said that next week he would present to the Export-Import Bank a request for the increase of the airport loan from $1 million to $4 million.[3] He said that the $1 million previously granted would not even be sufficient for paving of the runways and that Ecuador, in order to do a useful job, desired to erect administration buildings and install a modern communications system. He said that the loan request would be supported by a study of airport needs at Quito and Quayaquil prepared by the CAA Mission. In conclusion, the Ambassador said that his Government had determined to decline a Panagra loan of $500,000 to assist in the airport construction because the terms required by Panagra were unacceptable. Mr. Mann said that the Department would take appropriate action in this matter also.

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[3] Ambassador Chiriboga presented Ecuador's request to the Export-Import Bank on Jan. 12, 1953.

722.5 MSP/2–353:Airgram

The Secretary of State to the Embassy in Ecuador[1]

SECRET WASHINGTON, February 19, 1953.

A–157. The Department refers to the following communications concerning implementation of the grant-aid military assistance program for Ecuador: Embassy despatch 660, of February 19, 1952;[2] Embassy despatch 939, of June 16, 1952;[3] Embassy despatch 126, of Aug. 20, 1952;[4] Embassy despatch 266, of October 8, 1952;[5] Embassy despatch 511, of January 23, 1953;[6] Embassy telegram 195, of Jan. 23, 1953;[7] Embassy despatch 521, of Jan. 28, 1953;[8] Department telegram 188, of Jan. 30, 1953;[9] Embassy telegram 208, of Feb. 3, 1953;[10] Embassy despatch 536, of Feb. 3, 1953.[11]

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[1] Drafted by George O. Spencer of the Office of Regional American Affairs; cleared with the Office of the Special Assistant to the Secretary for Mutual Security Affairs, the Office of South American Affairs, and the Departments of Defense and the Army; signed by Mr. Jamison.

[2] In despatch 660, Ambassador Daniels informed the Department of State that he had received a note from Ecuadoran Foreign Minister Ponce, dated Feb. 14, 1952, expressing agreement with the Ambassador's proposals that U.S. armed service missions in Ecuador temporarily perform the functions of a Military Assistance Advisory Group (MAAG), and that additional personnel be assigned to these missions to perform necessary technical operations (722.5 MSP/2–1952).

[3] In despatch 939, Ambassador Daniels requested information about equipment scheduled for shipment to Ecuador in accordance with the Military Assistance Agreement, and he also suggested ways to reduce the costs to Ecuador of implementing the military assistance program (722.5 MSP/6–1652).

[4] In despatch 126, Ambassador Daniels recommended that only a minimum amount of the total administrative costs of the military assistance program for Ecuador be charged to the Ecuadoran Government for payment in local currency (722.5 MSP/8–2052).

[5] In despatch 266, the Embassy in Ecuador transmitted a memorandum by Col. Herbert B. Enderton, U.S. Army Attaché, dated Oct. 8, 1952, reporting the views of Ecuadoran armed forces concerning the arrival on Aug. 3, 1952, of the initial shipment of equipment under the Military Assistance Agreement (720.5 MSP/10–852).

[6] In despatch 511, the Embassy requested information with respect to whether or not the Department of Defense contemplated revision of the United States–Ecuador bilateral military plan of Feb. 20, 1952 (722.5 MSP/1–2353).

[7] In the referenced telegram, Ambassador Daniels recommended that a qualified military officer be sent to Ecuador by the Department of Defense to survey the operation of the military assistance program and to suggest solutions to the problems which had arisen in connection with the program (722.5 MSP/1–2353).

[8] In despatch 521, Ambassador Daniels reported a conversation which took place on Jan. 27, 1953, between him and Ecuadoran Minister of Defense Carlos Julio Arosemena Monroy, concerning the implementation of the military assistance program in Ecuador (722.5 MSP/1–2853).

[9] In telegram 188, the Department informed Ambassador Daniels that he would soon be instructed to initiate negotiations with the Ecuadoran Government to obtain its agreement to provide local currency to cover the costs of MAAG functions in Ecuador, and that Defense preferred to deal with the problems connected with the Ecuadoran program on the basis of the results of the negotiations, rather than by sending an officer to Ecuador to evaluate the situation (722.5 MSP/1–2353).

[10] In telegram 208, Ambassador Daniels emphasized the need for a military officer to survey the operation of the military assistance program in Ecuador (722.5 MSP/2–353).

[11] In despatch 536, Ambassador Daniels discussed the limited funds available in Ecuador for financing MAAG operations, and he reiterated his earlier recommendation for a special military mission to study the military assistance program for the purpose of adjusting it to Ecuadoran realities (722.5 MSP/2–353).

Before complying with the Embassy's request that a competent officer be sent to Ecuador to examine problems which have arisen in connection with the grant-aid military assistance program, the Department of Defense plans to review the basic problems which have been reported by the Embassy, the Acting MAAG Chief[12] and the U.S. Military Attaché,[13] with a view to determining alternative solutions. A preliminary review of those basic problems indicates that it may be possible to apply remedial measures of the type indicated below.

Local Currency and MAAG. Prior to the receipt of the Embassy's telegram 208, of Feb. 3, 1953, the Department of Defense reduced its original estimate of currency required for the program by about 40 percent. To accomplish this reduction, the Defense Department reduced the number of training teams planned for Ecuador over an eighteen-month period from three teams to one Army training team of five men, planned to remain in Ecuador for about 90 days. The Defense Department, however, made no change in its original recommendation for the establishment of a MAAG of four officers and four enlisted men. After currency requirements of the Defense Department had been revised, those of the State Department were recalculated and the following total U.S. requirement for Ecuadoran currency established. Amounts shown are in U.S. dollars. An equivalent amount of Ecuadoran currency, in each case, represents the U.S. requirement.

First Six-Month Period

	Training			*State Admin. Support*	*For Contingencies*	*Total*
MAAG	*Army*	*Navy*	*AF*			
8,517	7,385	—	—	4,213	1,885	22,000

Ensuing Twelve-Month Period

17,034	7,385	—	—	12,639	3,942	41,000

In view of the Embassy's report, in despatch no. 536, of February 3, 1953, that the Ecuadoran Ministry of Defense, because of its meager budget, would find it impracticable to assume any further financial burden of any importance beyond the current requirements of the Ecuadoran Armed Forces, the Defense Department has further reduced its requirements in accordance with the formula outlined below.

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[12] Col. Herbert K. Baisley, Chief, U.S. Air Force Mission in Ecuador.

[13] Col. Herbert B. Enderton.

(1) The MAAG would consist of four officers and four enlisted men, as indicated: Chief of MAAG, with the rank of Army Colonel, and one clerical assistant; an Army Section of one Lt. Colonel and one enlisted man; a Navy Section of one Lt. Commander; an Air Force Section of one Lt. Colonel and two enlisted men. Personnel would be carefully selected so as to assure that they would be qualified to implement the Army, Navy and Air Force programs effectively.

(2) Ecuador would be asked to pay the following expenses of MAAG personnel: station allowance while in Ecuador; necessary travel within Ecuador; return travel to the U.S., including return of dependents and household effects, but not travel to Ecuador of personnel, their dependents or household effects.

(3) Although personnel required for the program, as specified above, would not be assigned to training missions, they might share office space and be given access to administrative facilities and services which Ecuador already provides the training missions, thus reducing the amount of currency required by the State Department for administrative support to the MAAG.

(4) In order to establish a MAAG without increasing U.S. military population in Ecuador greatly, and in order to reduce the net cost to Ecuador of maintaining both a MAAG and U.S. training missions, the Army is prepared, subject to Ecuador's consent, to reduce its present training mission complement by two spaces, and the Air Force is prepared to reduce its present training mission complement by three spaces. The Navy is uncertain whether it would be practicable to reduce its present training mission complement and is requesting recommendations from the Chief of the Naval Training Mission in Ecuador before making a final determination.

(5) Ecuador would not be requested to supply currency for training teams, which would be sent to Ecuador, as needed, at U.S. expense.

(6) It might be possible to reduce, or eliminate, currency required for contingencies, i.e., return of MAAG personnel to Ecuador for consultation, in the event the need should arise.

Under this formula, Defense requirements in the above tabulation could be reduced to a total of $8,517 in currency required for the first six-month period and to a total of $17,034 in currency required for an ensuing twelve-month period. Depending on the ability and willingness of Ecuador to provide administrative facilities and services to the MAAG, it might be possible to reduce the amounts tabulated for State Department administrative support and for contingencies by perhaps one-half or more. In addition to these reductions, Ecuador would realize a reduction in cost brought about by a reduction of existing training mission complements, which are now being maintained at Ecuador's expense. Any unused-balance of currency existing at the end of either of the two specified periods would, of course, have the effect of reducing the amount of currency required for an ensuing period.

Consideration is not being given in Washington, at the present time, to the Embassy's suggestion that the program for Ecuador be wholly subsidized by the U.S. Legal difficulties prohibit funds programmed for end-items to be used for meeting U.S. administrative costs in Ecuador, and there are no other dollars available for meeting those costs. While it is recognized that the failure of Ecuador to agree to provide any currency would present the U.S. with a difficult choice, either of discontinuing the program or assuming its full cost, it is believed that the alternative proposed by the Embassy should be considered only as a last resort, after Ecuador has indicated officially an intention not to provide any currency for the program.

It would be beneficial to have at least a preliminary and informal Ecuadoran reaction to the above formula at an early date. In the event Ecuador should object to negotiations prior to settlement of the Army problems discussed below, it is suggested that negotiations might be limited to currency required by the State and Defense Departments to maintain all of the eight MAAG personnel proposed above, with the exception of one officer and one enlisted man proposed for the Army Section. This suggestion is based on the belief that rectifying the Army program may be time-consuming and that negotiations for currency required for an Army Section could be undertaken at a later date. In the event Ecuador is prepared to commence negotiations in accordance with the above formula, the Department is prepared to provide any additional information the Embassy may require for the negotiations.

Army Program. The Department of the Army is requesting the Chief of the U.S. Army Mission in Ecuador to submit additional information regarding problems which have arisen so that remedial measures may be developed. On the assumption that Ecuador is unwilling or unable to prepare an anti-aircraft battalion for hemisphere defense (see Colonel Enderton's report of December 22, 1952[14] to the Department of the Army) one of the following alternatives would appear to be indicated.

a. Reduce the battalion to a single battery, thus utilizing equipment shipped to date and thus reducing Ecuadoran effort and expense. Offer remainder of battalion to another country without delay.

b. Delete entire AA battalion from the program, retaining Air Force and Navy programs on present scale. Remove Army equipment shipped to date. Offer AA battalion to another country.

c. Same as b, and in addition, indicate to Ecuador that a contribution of some other unspecified unit might be considered at some indefinite later date, subject to acceptability at that time to both countries and subject to availability of U.S. and Ecuadoran funds, at that time.

If Ecuador cannot contribute an AA battalion, present U.S. military planning requires that the Department of the Army seek the contribution of an AA battalion from some other Latin American country. The Department of the Army is therefore not in a position to release Army funds programmed for Ecuador to the Navy or Air Force, in order to permit an increase in Navy and Air Force programs.

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[14] Not found in Department of State files.

There appears to be virtually no possibility of the U.S. providing warehousing assistance to Ecuador.

Navy and Air Force Programs. It may be possible for the Navy Department to increase slightly the Navy program planned for Ecuador. The substitution of AT–6–g for AT–6 aircraft is unlikely to present a problem. The Acting MAAG Chief should submit this request to the Department of Defense if he has not already done so.

With regard to questions raised by the Embassy in its despatch No. 511 of January 23, 1953, the Embassy will be informed, and provided an opportunity to comment, regarding any contemplated revision of the Secret Military Plan with Ecuador or the basic program contemplated under the Plan. After the Embassy has consulted with the Chiefs of the Army, Naval and Air Force Missions, the Department would very much appreciate receiving any proposals the Embassy may desire to submit regarding the Plan.

As soon as the Defense Department is prepared to send an officer, or officers, to Ecuador to review the problems which have arisen, the Embassy will be informed. In the interim, the Department would appreciate receiving the Embassy's reaction to the local currency and MAAG proposals set forth herein.

DULLES

Editorial Note

In airgram A–173, to Quito, dated March 20, 1953, the Department of State informed the Embassy that the Department of Defense, on the basis of information supplied by the Embassy, had revised its proposals with respect to the establishment of a Military Assistance Advisory Group (MAAG) in Ecuador, and now recommended a MAAG consisting of one officer and one enlisted man at a total cost of $10,800 for an 18-month period (722.5 MSP/3–1053).

In despatch 848, from Quito, dated May 25, 1953, Ambassador Daniels reported that the Embassy received payment amounting to $10,800 from the Government of Ecuador to cover local costs of the MAAG (722.5 MSP/5–2553).

822.2327/4–1653

Memorandum of Conversation, by Edgar L. McGinnis, Jr., of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] April 16, 1953.

Subject: Abaca Agreement[1]

Participants: The Ecuadoran Ambassador
Thomas C. Mann, Acting Assistant Secretary—ARA
Edgar L. McGinnis, Jr.—OSA

The Ecuadoran Ambassador told Mr. Mann that he had just been informed by the RFC that a recent White House directive prohibited it from signing the pending abaca contract with Ecuador.[2] Ambassador Chiriboga said that the reaction in Ecuador to this development would be one of considerable disappointment. He referred to the lengthy negotiations between the RFC and his Government regarding this contract and said that Ecuador had finally determined about a month ago to sign the agreement on RFC's terms.

Mr. Mann said that he regretted very much that recent developments had made it necessary for the RFC to discontinue negotiations for a contract with the Ecuadoran Government. He stated that the entire abaca program of the U.S. Government had been reviewed recently from the standpoint of our security needs of the fiber. He said that the review disclosed that no expansion of the abaca program would be necessary or desirable. Mr. Mann pointed out that the abaca program was authorized by law solely to provide abaca to meet the security needs of the U.S. and that the program was in no sense designed for the purpose of rendering economic aid to other countries. Mr. Mann observed that he had expressed misgivings to the Ambassador last fall, when the latter had been asked to call at the Department to expedite Ecuadoran action upon the pending contract, that if further delays were encountered the U.S. might not be able to conduct the program at all.

The Ambassador agreed to this and indicated that it was indeed unfortunate that the Ecuadoran Government had not given its approval to the contract in a form satisfactory to the RFC until it was too late.

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[1] Between May and November 1952, representatives of the Reconstruction Finance Corporation (RFC) and Ecuador conducted negotiations for a contract with respect to the development of abaca production in Ecuador. The negotiators agreed on a contract, but the Ecuadoran Government took no action to approve it. In November, the Ecuadorans were notified that the White House had the entire abaca program under review to determine whether any expansion was required in light of U.S. security needs. (Memorandum by Mr. McGinnis to Mr. Mann, dated Apr. 10, 1953, 822.2327/4–1653)

[2] The White House decision was conveyed in a letter from President Eisenhower to RFC Administrator Harry A. McDonald, dated Apr. 10, 1953; a copy is attached to 822.2327/4–1653.

822.00/6–1153

Memorandum of Conversation, by Edgar L. McGinnis, Jr., of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] June 11, 1953.

Subject: Visit of Minister National Economy; Economic Matters.

Participants:
Ambassador Chiriboga of Ecuador
Ecuadoran Minister of Economy, Jaime Nebot Velasco
Ecuadoran Minister of Defense, Carlos Julio Arosemena
OSA—Mr. Atwood
OSA—Mr. Bernbaum
AR—Mr. Jamison
AR—Mr. Spencer
OSA—Edgar L. McGinnis, Jr.

After the discussion of other questions Ambassador Chiriboga stated that the Minister of National Economy, Nebot, wished to say a few words respecting economic matters. Sr. Nebot thereupon launched upon a highly generalized review of the Ecuadoran economy. He spoke of efforts of the Velasco administration to promote economic development of the country. He said that this could not be accomplished by Ecuadoran resources alone and the economic aid of the U.S. was, therefore, required. The Minister observed that Ecuador had done everything possible to improve its credit abroad referring to increased exports, rising foreign exchange reserves and effective and beneficient economic controls exercised by the Banco Central. The most recent development along these lines was the successful negotiation with the British Bondholders Protective Council of a settlement providing resumption of service upon the defaulted Guayaquil and Quito Railway bonds.[1] Despite all this, the Minister said, the Export-Import Bank had not seen fit to aid Ecuador except to an extremely minor degree. On the contrary, while virtually ignoring Ecuador, the Bank had made substantial loans recently to Peru, Colombia, Brazil and other countries. He indicated with some feeling that Ecuador was beginning to believe that U.S. promises of economic aid were not to be fulfilled and that it would have to reduce the tempo of its economic development to a level which could be supported by its own meager financial resources.

Mr. Bernbaum asserted that the Department was sympathetic with Ecuadoran aspirations for fuller economic development and referred to past loans including the earthquake rehabilitation loan[2] and highway loans. He remarked that Ecuador had not yet fully utilized the earthquake credit. In reference to highways loans he said that it appeared now that the Quevedo–Manta highway was on the right track. Mr. Bernbaum then stated that the Department had been disappointed over the slow progress of the airports credit application at the Export-Import Bank, but related that the Bank's desire to go very slowly in this matter arose from the Bank's past experiences with Ecuadoran loans. He said that he would not specify difficulties arising under the highway maintenance credit, as well as certain other credits, but the fact remained that the Bank wished to have these difficulties ironed out before proceeding with the airports credit. He added that the Bank also required further data on the airports project before making a final decision. Summing up, Mr. Bernbaum observed that in all frankness, these past experiences had perhaps made the Bank more careful and exacting in its dealings with Ecuador, than with some other countries. In conclusion he asserted that difficulties arising from past credit operations had confronted Ambassador Chiriboga upon his arrival in Washington and that the Ambassador was to be congratulated upon the excellent progress he had made in clearing up many of these matters.

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[1] For information on the bond settlement, see *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1953* (Washington, 1954), p. 68.

Mr. Atwood spoke of the Department's willingness to cooperate with Ecuador in working out any outstanding problems and of our sincere desire to aid Ecuador in any appropriate manner to bring to a successful conclusion its plans for the economic development of the country.

Sr. Nebot indicated that he understood this, but felt that early and favorable consideration should be given to Ecuadoran loan applications by the Export-Import Bank. In the light of the recent bond settlement, the Minister related that Ecuador intended to apply to the IBRD for a number of development loans, including highways and port development. The Minister indicated that in view of Ecuador's strong credit position currently, it would wish to borrow money in this country from the IBRD and from the Export-Import Bank without the necessity of detailed project justification. He said that the receipt of a lump sum loan from the Bank which could be applied to such development projects as Ecuador selected, would permit of more flexible operations and eliminate time-consuming negotiations regarding details.

Ambassador Chiriboga stated that he would escort the Minister of National Economy to the Export-Import Bank and to the IBRD on Thursday, June 11 for talks[3] with officials of those institutions.

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[2] Reference is to the $7 million line of credit in favor of the Republic of Ecuador authorized by the Board of Directors of the Export-Import Bank in December 1949 to assist Ecuador in reconstruction work in the area damaged by the earthquake of August 1949.

[3] No memoranda of these conversations were found in Department of State files.

722.56/6–2453

Memorandum of Conversation, by Charles W. Kempter of the Office of Financial and Development Policy

CONFIDENTIAL [WASHINGTON,] June 24, 1953.

Subject: Ecuador—Contingent Lend-Lease Debt

Participants: Mr. William F. Gray, ARA:OSA, State
Mr. Charles W. Kempter, OFD:LL, State

At my suggestion Mr. Gray, who will soon leave for Quito to assume the post of Economic Attaché at our Embassy in Ecuador, called this afternoon in order that he might become acquainted with the status of Ecuador's lend-lease and surplus property accounts.[1]

I told him that a quick disposition could be made of the surplus property subject for, by coincidence, only yesterday LL had received notification from the Embassy of the final payment on principal account together with interest through March 31, leaving to be paid only a very small amount (about $551) representing interest which had accrued from April 1 to date of payment, June 16.[2]

In order to make clear the current lend-lease situation I reviewed Ecuador's lend-lease history from the signing of the Agreement on April 6, 1942,[3] to the eventual full payment on February 12, 1951 for aid furnished on "treaty" account.

The circumstances of the origin of the so-called "contingent" lend-lease account were outlined to point out that, under Presidential authority, this Government provided on a cash reimbursable basis to lend-lease countries maintenance and repair equipment to keep in operation matériel previously supplied as lend-lease aid, also, the manner in which the Ecuadoran Military Attaché in Washington exceeded his purchasing authority and, how later, the Government of Ecuador finally admitted its responsibility for the obligation incurred for goods delivered, but not as yet paid for, and valued at about $545,000. Due to a variety of reasons, including political and economic crisis and a devastating earthquake, the efforts of the Department to work out settlement terms with the Ecuadoran authorities were, in each and every instance, nullified by recurring situations. Finally, due largely to the successful cooperation of our Embassy, payments on the surplus property debt were undertaken and it was tacitly agreed that, until its liquidation, no new approaches would be made for settlement of the lend-lease debt. Now that this, to all technical effect, has been accomplished the Department is prepared to renew negotiations as soon as expedient.[4]

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[1] As of June 1, 1952, Ecuador's obligation to the United States under terms of the Surplus Property Agreement of June 27, 1947, as amended, amounted to $527,048.94 ($484,275.90 in principal; $42,773.04 in interest). The Ecuadoran Government liquidated most of this indebtedness, including additional interest accrued after June 1, 1952, in four installments of unequal amounts paid on July 8 and Sept. 12, 1952, and Mar. 10 and June 16, 1953. Pertinent documents are in file 722.56 for 1952 and 1953.

[2] In despatch 184, from Quito, dated Sept. 24, 1953, the Embassy informed the Department of State that it had received payment in sucres to cover the balance of $551.76 on Ecuador's surplus property account (722.56/9–2453).

[3] For text of the Lend-Lease Agreement, signed by the United States and Ecuador at Washington, Apr. 6, 1942, and entered into force on the same date, see *Foreign Relations*, 1942, vol. VI, p. 379.

[Here follows further discussion of matters related to Ecuador's contingent lend-lease obligations.]

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[4] Department of State files indicate that no formal negotiations with Ecuador concerning its contingent lend-lease obligations were undertaken in 1954.

722.5 MSP/6–2953: Airgram

The Secretary of State to the Embassy in Ecuador[1]

SECRET WASHINGTON, June 29, 1953.

A-249. The Department has received from the Defense Department a memorandum of June 5, 1953,[2] which sets forth certain recommendations of the Joint Chiefs of Staff respecting future implementation by the Defense Department of the grant-aid military assistance program being conducted under the Bilateral Military Assistance Agreement between Ecuador and the U.S. The Embassy's comments regarding the recommendations of the Joint Chiefs are requested.

"1. The approved MDAP force bases for Ecuador are as follows:

"a. *Army*	1 AAA (AW) Battalion
"b. *Navy*	1 Patrol Craft
"c. *Air Force*	1 Fighter Squadron

"2. The inclusion of 1 AAA (AW) Battalion in the approved forces for programming mutual defense assistance for Ecuador resulted from a recommendation by the Secretary of State in November 1951 that, unless there were overriding military considerations to the contrary, negotiations with Ecuador should include the opportunity for that country to prepare units of two services rather than the one service then contemplated (Air Force). The Joint Chiefs of Staff reported to the Secretary of Defense[3] that there were no military objections which would override the political considerations involved and designated 1

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[1] Drafted and signed by Mr. Spencer.

[2] The signed copy of the referenced memorandum is in file 722.5 MSP/6–533.

[3] Charles Erwin Wilson.

AAA (AW) Battalion to be furnished by Ecuador. The Navy patrol craft was also included in the negotiations as a result of a later modification by the Joint Chiefs of Staff.

"3. Several reports have been received by the Departments of State and Defense from U.S. representatives in Ecuador (the U.S. Ambassador, the U.S. Army Attaché, and the Acting Chief of the MAAG) to the effect that the Army equipment thus far delivered to Ecuador under the MDAP is unwanted and inappropriate. The Acting Chief of the Army Section of the MAAG (Ecuador) recommended to the Department of the Army that the Army portion of the MDAP for Ecuador be terminated. The U.S. Ambassador to Ecuador suggested that consideration should be given to increasing the Navy portion of the program.

"4. The reports, suggestions, and recommendations referred to above have been carefully studied by the Department of Defense.

"5. The Joint Chiefs of Staff have considered the advisability of revising the presently approved force bases for programming mutual defense assistance for Ecuador and have concluded that no revision should be made at this time. However, since Ecuador is not at this time prepared to absorb the undelivered portion of the equipment for an AAA (AW) Battalion and thereby of qualifying to receive this portion of its MDAP the Joint Chiefs of Staff have recommended that the United States should:

> "a. Suspend shipments of Army equipment to Ecuador until such time as the Department of the Army determines that resumption of shipments is warranted.
>
> "b. Continue efforts to obtain Ecuador's cooperation in the raising of its AAA Battalion.
>
> "c. In the event these efforts are still unsuccessful after a reasonable time or the Government of Ecuador so requests, re-examine the force bases for the Ecuadorian MDAP.

"6. The Department of the Army is being requested to take appropriate action to implement the recommendations of the Joint Chiefs of Staff.

"7. It is suggested that the U.S. Ambassador to Ecuador be informed and that he be requested to continue his efforts to obtain Ecuador's cooperation in the raising of its AAA Battalion."

With regard to the Navy program planned for Ecuador, the Embassy is advised that the Ecuadoran Minister of Defense informed Defense Department representatives during his recent trip to Washington that he desired to obtain under the program a U.S. naval vessel in trade for a naval vessel now in the possession of Ecuador. He indicated that he desired a ship in better condition and of a more modern type than one of those now in the Ecuadoran Navy. Defense Department representatives requested the Minister to submit his request to the Acting Chief of MAAG, upon his return to Ecuador. He was informed that requests for alterations in the program should be submitted to the MAAG, which would then refer the request to the Defense Department in Washington for consideration.

The Defense Department is in process of selecting an officer for assignment as Chief of MAAG to Ecuador. As soon as the Department has been notified of the officer selected, the Department will communicate his name and qualifications to the Embassy for approval and diplomatic clearance.

DULLES

398.14/7-653

Memorandum of Conversation, by Edgar L. McGinnis, Jr., of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] July 6, 1953.

Subject: Ecuadoran Relations with IBRD.

Participants: Ambassador Chiriboga of Ecuador.
OSA—Mr. Bernbaum
OSA—Edgar L. McGinnis, Jr.
OSA—Mr. Atwood

Ambassador Chiriboga told Mr. Atwood that he sought this interview to inform the Department regarding his recent conversation with President Black of the IBRD. The Ambassador said that he visited Mr. Black on Friday at the latter's request and was told that the IBRD wished to be Ecuador's banker and that the IBRD would fulfill its announced intention to send a Mission to Ecuador in the middle of August. Mr. Black, according to the Ambassador, stated that the Mission would examine Ecuadoran loan projects and recommend such of those which appeared to be sound and that the Bank would then exercise its judgment as to which projects it could approve for the purpose of assisting in the economic development of Ecuador.

The Ambassador was also requested by Mr. Black to withdraw the airports loan now pending before the Export-Import Bank since, in the latter's view this project was relatively unimportant. In this connection Mr. Black said that he had discussed the airports loan with Sr. Nebot, Ecuadoran Minister of Economy who had told him that Ecuador would be willing to withdraw the airports loan from the consideration by the Export-Import Bank and include it with those projects to be examined by the IBRD mission.

Ambassador Chiriboga stated that he told Mr. Black emphatically that while his Government was perfectly agreeable to having an IBRD mission visit Ecuador and appreciated the Bank's interest in the country, it would not withdraw the airports loan from the Export-Import Bank. The Ambassador informed Mr. Black that the airports loan was not only of considerable economic importance to Ecuador but that it had political implications as well. He said the airports loan would be of strategic significance since it would improve transportation facilities at both Guayaquil and Quito which could be of advantage to hemisphere defense. He also told Mr. Black that because of the lengthy period during which the Export-Import Bank had this loan under consideration and the urgency of prompt action, his Government could not consent to having the application transferred to the IBRD. The Ambassador added that the Minister of Economy did not have authority to promise Mr. Black to withdraw the airports loan and said that this authority rested only with President Velasco. The President had very recently urged the Ambassador to press the ariports loan with all vigor with officials of the Export-Import Bank. Ambassador Chiriboga also said that he informed Mr. Black that Ecuador regarded the airports loan as a commitment of the U.S. Government since General Edgerton had promised in a recent letter[1] to the Ambassador that the loan would be acted upon after the return of the Export-Import Bank mission from Ecuador which was recently sent there to study the project. The Ambassador mentioned also that the Export-Import Bank had approved this loan in principle in 1951. The Ambassador stated that it would be greatly resented in Ecuador if the IBRD were to force the withdrawal of the airports loan from the Export-Import Bank. Ambassador Chiriboga said that Mr. Black closed the conversation by expressing considerable doubt that the Export-Import Bank would ever approve the Ecuadoran application for the airports loan.

Ambassador Chiriboga then said that he regarded the possible assumption of a monopoly on foreign loans by the IBRD as a very unfavorable development. He said that the IBRD would be placed in a position where it could dictate economic policies without reference to the Department of State or the American Government. He asserted that, in any case, Ecuador was still a sovereign nation and that, while it would accept the advice and counsel of the IBRD it would not and could not permit the IBRD to dictate the economic development policies of the country. He asserted that, since Ecuador was a sovereign nation, this power could only be exercised by its President. He warned against the consequences in Latin America of the establishment of a single "monopolistic" loan authority.

Mr. Atwood thanked Ambassador Chiriboga for his views and said that it was his understanding that Export-Import Bank still had the airports loan under active consideration and would make a decision upon the loan in due course. He observed that he could see some advantage in centralizing development loans in the IBRD, but that he did not believe that the IBRD would assume complete authority for making loans to the total exclusion of the Export-Import Bank. He observed that the Department was naturally interested in this matter from the standpoint of foreign policy and would continue to watch developments with interest.[2]

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[1] Not found in Department of State files.

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[2] In a memorandum to Mr. Waugh, dated Aug. 14, 1953, Mr. Corbett stated that the Department supported the Ecuadoran Government's refusal to withdraw the airport credit application from the Export-Import Bank for the following reasons: (1) the original credit of $1 million had been granted by the Export-Import Bank, (2) the present credit request was intended to supplement the original credit, and (3) the airports were of strategic interest to the United States (103 XMB/8-1453).

822.2312/8-1453

Memorandum of Conversation, by Edgar L. McGinnis, Jr., of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] August 14, 1953.

Subject: Quevedo–Manta Highway Project

Participants: Ambassador Chiriboga of Ecuador
Deputy Assistant Secretary Woodward—ARA
OSA—Edgar L. McGinnis, Jr.

Ambassador Chiriboga stated that he wished to inform Mr. Woodward of his conversation on August 13 with General Edgerton regarding the Quevedo–Manta highway project. The Ambassador stated that after informing him of the Bank's approval of the draft contract between Ecuador and the J. A. Jones Construction Company, General Edgerton informed him that the Export-Import Bank would be unable to approve any credits for local expenditures for the project.

Ambassador Chiriboga said that he was extremely surprised and disappointed at the General's attitude, since the Bank had previously committed itself to provide for local expenditures for the construction of the highway and that the Bank's refusal to fulfill this commitment would "kill" the project.[1]

The Ambassador related that the loan was granted in 1942 under terms that committed the U.S. to loan a sum sufficient to complete the highway. He said that the highway and waterworks loans were offered to Ecuador at that time as a consolation for the concessions it made in signing the Rio Boundary Protocol.[2] In any case, he said, the Bank's refusal to make good on this long-standing commitment would not be understood by his Government and that he would refuse to transmit such a decision to his foreign office preferring that an adverse decision of this gravity should be transmitted to Ecuadoran Government through the U.S. Embassy in Quito. The Ambassador indicated that after he had made these remarks General Edgerton appeared to be more sympathetic and indicated that he would look into the matter further before making a decision.

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[1] In a memorandum to Assistant Secretary Waugh, dated Aug. 14, 1953, reviewing the background of the Quevedo–Manta Highway project, Director of the Office of Financial and Development Policy Corbett stated in part that "there is a definite commitment between the U.S. Government and the Ecuadoran Government that this project will be completed." (103 XMB/8-1453)

Mr. Woodward stated that the Department realized the importance of this project to Ecuador and would be pleased to discuss the matter with appropriate officials.

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[2] Reference is to the Protocol of Peace, Friendship, and Boundaries Between Peru and Ecuador, signed at Rio de Janeiro, Jan. 29, 1942, and entered into force, Feb. 26, 1942; for text, see 56 Stat. 1818. Argentina, Brazil, Chile, and the United States also signed the Protocol as guarantors.

725.5 MSP/9–1053

Memorandum by the Director of the Office of Military Assistance, Department of Defense (Stewart) to the Acting Special Assistant to the Secretary for Mutual Security Affairs (Nolting)[1]

SECRET [WASHINGTON,] September 10, 1953.

Subject: Additional United States Assistance Proposed for Ecuadoran Navy

1. Reference is made to memorandum from your office, 23 July 1953, subject as above, which inclosed a copy of despatch No. 4 of 3 July 1953 from the U.S. Embassy in Quito, Ecuador.[2]

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[1] Mr. Nolting was appointed Acting Special Assistant to the Secretary for Mutual Security Affairs on Aug. 4, 1953; he became Special Assistant on Jan. 4, 1954.

[2] Under cover of the referenced despatch, Ambassador Daniels transmitted to the Department of State a memorandum from the Chief of the United States Naval Mission in Ecuador, Cmdr. R. J. Toner, dated July 2, 1953, recommending the following assistance to the Ecuadoran navy: (1) replacement of certain antiquated Ecuadoran merchant ships converted to naval use by permitting Ecuador to purchase newer patrol craft or frigates from the United States, (2) authorization to allow Ecuador to purchase a net tender, (3) assistance to conduct a hydrographic survey to determine the feasibility of constructing a channel in the Estero Salero at the entrance of Guayaquil harbor, and (4) support of training for Ecuadoran naval officers in the United States in net tender operations (722.5 MSP/7–353).

In the referenced memorandum, dated July 23, 1953, Acting Special Assistant Newman transmitted a copy of Commander Toner's memorandum to the Department of Defense, and also requested information concerning what action Defense was prepared to take with respect to the recommendations for naval assistance to Ecuador (725.5 MSP/7–353).

2. The Department of Defense has reviewed the recommendations submitted by the United States Naval Mission in the aforementioned despatch. The following information is furnished.

a. None of the types of ships recommended for additional assistance to the Ecuadoran Navy are available in excess of U.S. needs.

b. As regards the Patrol Craft (PCE) and frigates (PF), provision of additional combat vessels under the Mutual Defense Assistance Program (MDAP—grant aid) would require a revision of the presently established naval force bases for Ecuador. As you were informed in a memorandum of 5 June 1953,[3] subject: Force Bases for Ecuador, Mutual Defense Assistance Programs, the Joint Chiefs of Staff have concluded that no revision thereof should be made at this time.

c. Assistance by a team of experienced personnel to conduct the hydrographic survey recommended can be furnished under the Naval MDA Training Program at no cost to the Ecuadoran Government.

d. The training of Ecuadoran personnel recommended can be furnished under existing legislation at no cost to the Ecuadoran Government except for transportation and maintenance of those personnel to, from and within the Continental United States.

e. The approximate procurement cost of the ships recommended, including equipment and spare parts, are shown on the attached list (Inclosure 1).

3. In view of the limited funds available for Title IV grant aid, it is not considered desirable to program for Ecuador any of the recommended ships. These vessels, however, could be procured and sold to Ecuador under the reimbursable military assistance provisions of the Mutual Defense Assistance Act of 1949, as amended.

4. The Department of Defense is prepared to consider requests received through prescribed channels of communication from the MAAG Ecuador for approval of the projects outlined in paragraph 2c and d. Any requests for vessels should be the subject of a diplomatic note to the State Department.

G. C. STEWART
Major General, U.S. Army

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[3] See airgram A–249, dated June 29, 1953, printed on p. 985.

Inclosure 1

19 AUGUST 1953.

ECUADORAN REQUESTS

Approximate costs, as of this date, of ships desired

	Unit Costs
PCE	$3,193,000
AN	3,030,000
AOG	6,340,000
ARS	6,340,000
PF	5,950,000

Total Costs

4	PCE	$12,772,000	4	PF	$23,800,000
1	AN	3,030,000	1	AN	3,030,000
1	AOG	6,340,000	1	AOG	6,340,000
1	ARS	6,340,000	1	ARS	6,340,000
	Total	$28,482,000			$39,510,000

The above prices include equipment and spare parts, and are the best available at this time.

Editorial Note

On September 16, 1953, the Export-Import Bank authorized an increase of $2,280,000 in a previous credit of $2,720,000 extended to the Republic of Ecuador in 1947 to assist in financing the cost of completing the Quevedo–Manta Highway. For additional information, see Export-Import Bank of Washington, *Seventeenth Semiannual Report to Congress for the Period July–December 1953* (Washington, 1954), pages 11–12.

In December 1953, out of a commitment of $7 million made to the Republic of Ecuador in 1949 to finance earthquake reconstruction, the Export-Import Bank allocated $1,500,000 to assist in financing improvements in airport facilities at Quito and Guayaquil. This allocation, together with a previous credit of $1 million for airport development extended to Ecuador in 1951, made available the sum of $2,500,000 for airport expansion in Ecuador. For additional information, see *ibid.*, page 14.

On February 10, 1954, the International Bank for Reconstruction and Development approved an $8,500,000 loan to the Comite Ejecutivo de Vialidad de la Provincia del Guayas to meet the foreign exchange costs of a highway construction program in the Province of Guayas. For further information, see International Bank for Reconstruction and Development, *Ninth Annual Report to the Board of Governors 1953–1954* (Washington, 1954).

On June 24, 1954, the Export-Import Bank authorized an increase of $3,650,000 in a $4 million line of credit originally approved in 1942 to assist in financing the construction of a water supply project for the municipality of Quito. For additional information, see Export-Import Bank, *Eighteenth Semiannual Report to Congress for the Period January–June 1954* (Washington, 1954), pages 13–14.

722.5811/1–1554

Memorandum by the Special Assistant to the Secretary for Mutual Security Affairs (Nolting) to the Director of the Office of Military Assistance, Department of Defense (Stewart)[1]

SECRET [WASHINGTON,] January 15, 1954.

Subject: Ecuadoran Request for Naval Assistance.

Reference is made to despatch No. 341 of January 4, 1954[2] from Embassy Quito stating that two top Ecuadoran naval officers are proceeding to the United States and later, if necessary, to Europe for the purpose of purchasing naval vessels for the Ecuadoran Navy. The despatch indicates that the Ecuadoran naval officers were to arrive in New Orleans about January 8 to inspect a 3,000 ton vessel which could serve for inshore and river patrol purposes. Thereafter they plan to proceed to Washington and then to Europe. Both have visas for the UK, France, Germany, Italy and Spain.

The earnest desire of the Ecuadorans to procure certain naval vessels from the United States at less than replacement costs is, of course, well known to the Department of Defense. It appears obvious to this Department that if the Ecuadorans are not able to secure assurances while in Washington that they can procure the equipment on acceptable terms from the United States they will proceed to Europe and attempt to purchase equipment which presumably would be of non-standardized character. The reference despatch indicates that the Chief of the U.S. Naval Mission to Ecuador, Commander Toner, in view of this and other important considerations, has sent a message to the Department of Defense asking that the utmost consideration be given to Ecuador's naval needs. This Department concurs in Commander Toner's recommendation.

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[1] Drafted by Alton W. Hemba of the Office of Regional American Affairs; cleared with the Office of the Special Assistant to the Secretary for Mutual Security Affairs and the Office of South American Affairs.

[2] Not printed (033.2211/1–454).

With regard to Colonel James G. Anding's memorandum of December 14, 1953,[3] also pertaining to the Ecuadoran request, the Department of State believes it would be unwise to inform the Ecuadorans that a negative decision, at least for the present time, has been reached on their request for naval equipment, in view of the importance which the Ecuadorans attach to their request and the possibility that the Department of Defense may wish to include Ecuador (Estero Salado) in the United States plan for control of shipping in event of war. To do so might make it difficult or even impossible to secure Ecuadoran permission to include Estero Salado in the control plan if later desired by the Department of Defense.

In view of the fact that the control plan is currently being developed, we believe that the Department of State, the Department of Defense and the American Embassy in Quito should respond, when queried by the Ecuadorans with regard to their request, that consideration of the request is being given on a continuing basis and that no final conclusion has been reached. We do not think that this precaution would necessarily dissuade the Ecuadorans from proceeding to Europe to seek out equipment, but we do believe it is necessary if we are not to run the risk of foreclosing Ecuadoran cooperation which may be needed in connection with the control plan.

I would appreciate receiving your reaction to this proposal.

FREDERICK E. NOLTING, JR.

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[3] Not found in Department of State files.

722.5 MSP/4-2754

Memorandum by the Director of the Office of Military Assistance, Department of Defense (Stewart) to the Special Assistant to the Secretary for Mutual Security Affairs (Nolting)

SECRET WASHINGTON, April 27, 1954.

Subject: Ecuadoran Request for Naval Assistance

1. References:

a. Memorandum from your office, 23 July 1953,[1] subject: "Additional United States Assistance Proposed for Ecuadoran Navy and reply thereto 10 September 1953."[2]

b. Memorandum from your office, 15 January 1954,[3] subject as above.

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[1] See footnote 2 to Major General Stewart's memorandum, Sept. 10, 1953, p. 990.

[2] *Ibid.*

[3] *Supra.*

c. Meeting between representatives of the Ecuadoran Government, Departments of State and Defense, and the Navy Department, 12 February 1954.[4]

d. Meeting between representatives of the Ecuadoran Government and MAAG, Ecuador, 24 February 1954.[5]

2. The proposal was made in reference 1b. above, that if United States representatives are queried by the Ecuadorans with regard to their request for additional naval assistance, the response should be that consideration of the request is being given on a continuing basis and that no final conclusion has been reached. This proposal is considered sound and has been the basis of additional talks between interested agencies concerning Ecuador's request for vessels.

3. It is reiterated, however, that the United States Navy does not have available any vessels of the types requested by Ecuador, but could make available to the Government of Ecuador certain other naval vessels. These are Landing Ship Flotilla Flagships (LSFF). The cost to the Government of Ecuador for this type naval vessel would be approximately $390,000 each. They are available for inspection by Ecuadoran naval representatives, and can be delivered in approximately three to four months after completion of the customary negotiations. The training of crews for these vessels can be accomplished in the United States.

4. It is believed that the purchase of the LSFF type vessel will provide the Ecuadoran Navy with a craft that can be used for patrol purposes, for training, and for transportation of small landing parties, supplies, and equipment to remote coastal points. Further, it is believed that it is a type ship which the Ecuadoran Navy is economically capable of operating and maintaining.

5. This memorandum confirms information previously made known to your office.

G. C. STEWART
Major General, U.S. Army

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[4] A memorandum of conversation between representatives of the Departments of State, Defense, and Navy, and the Ecuadoran Government, dated Feb. 11, 1954, in which the participants discussed the types of vessels that the United States might make available to Ecuador, is in file 722.5 MSP/2–1154.

[5] No memorandum of the referenced meeting was found in Department of State files.

722.5 MSP/9–354

Memorandum of Conversation, by Byron E. Blankinship of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] September 3, 1954.

Subject: Ecuadoran Protest About Treatment Accorded it by Bilateral Mutual Security Program

Participants: Ambassador Chiriboga, Embassy of Ecuador
Mr. Woodward, ARA
Mr. Blankinship, OSA

Ambassador Chiriboga referred to the complaint which he had already lodged with the Department regarding the selection of Peru as an example of the effectiveness of the military grant aid program in South America (see memorandum of conversation of August 24, 1954[1]). The Ambassador emphasized that his Government was deeply concerned that the United States was arming Peru under the mutual assistance program. He said that Ecuadorans could see no justification for providing Peru with arms at precisely a time in the first six months of this year when Peru was engaged in aggressive acts against Ecuador. The Ambassador said that he had been instructed to hand a memorandum[2] to the Department regarding this matter. At this point he presented the memorandum which contained two principal points, namely, (1) what guarantees were there that Peru would not use the arms provided her by the United States for aggressive purposes, particularly against Ecuador and (2) a request that Ecuador be granted equal grant aid assistance with Peru.

Mr. Woodward stated that Ecuador had at least three explicit guarantees that military aid furnished Peru would be used for the purpose for which it was provided, the collective defense of the western hemisphere. In the first place, the multilateral treaty of Rio contained stipulations which would make an attack of Peru upon Ecuador the concern of all the countries of the hemisphere. Secondly, standard clauses of the bilateral mutual assistance agreements with each country, including that with Peru, provided that equipment granted a recipient under the program could be used only for the common defense of the hemisphere and that specific approval of the United States Government must be obtained for any other use. Thirdly, Mr. Woodward said, Ecuador had a special undertaking by the guarantors of the Protocol of 1942 against attacks by Peru. Mr. Woodward concluded on this point that it appeared to him that Ecuador had ample guarantees against a misuse of the equipment being provided to Peru under the assistance program.

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[1] Not printed (722.5 MSP/8–2454).
[2] Not printed (722.5 MSP/9–354).

Mr. Woodward recapitulated the present status of the military grant aid program with Ecuador. He pointed out that more than 90% of the equipment for the anti-aircraft battalion had already been delivered and that 11 of 17 fighter planes promised under the terms of the program had already been delivered and that the refitting of the Ecuadoran patrol vessel provided for in the secret plan was going forward as promised. The Ambassador conceded on all of this but stated that Ecuador was very unhappy because it had been given no substantial naval assistance under the program, whereas Peru had obviously obtained substantial aid for its navy. The Ambassador stated that if a naval vessel or two could be made available to Ecuador he believed that the Ecuadorans would consider the program far more successful than they did as of now.

611.22/12-1054

Memorandum of Conversation, by Byron E. Blankinship of the Office of South American Affairs

OFFICIAL USE ONLY [WASHINGTON,] December 16, 1954.

Subject: Review of Pending Ecuadoran-U.S. Problems
1. Peru-Ecuadoran Relations
2. Eximbank Loan Applications
3. Shipping Discrimination
4. Maritime Zone Claims
5. Guatemalan Refugees

Participants: Ambassador Chiriboga, Embassy of Ecuador
Ambassador Edward J. Sparks, ARA
Mr. Byron E. Blankinship, OSA

1. Peru-Ecuadoran Relations

Ambassador Chiriboga bitterly complained about Peru's aggressiveness toward Ecuador. He alleged that huge Peruvian arms purchases had forced Ecuador into an arms race which was interfering with needed economic developments, unsettling Ecuadoran finances and lowering the standard of living. He said that no incidents had occurred for about three months but that a dangerous situation existed.

2. Eximbank Loan Applications

The Ecuadoran Ambassador said that a year ago after much frustration Ecuador had finally succeeded in obtaining two loans from the Export Import Bank for airport and road construction but that neither was adequate. He said that Ecuador would apply to the Eximbank for three additional loans as follows: one for about $800,000 to construct terminal buildings for the airports at Quito and Guayaquil and a second for construction of a hotel at Quito for the 11th Inter-American Conference[1] and tourists. He said that three or four months ago General Edgerton told him the Bank would not back hotel construction but that this position may have changed since the Rio Conference. Chiriboga said that Ecuador could not understand this attitude since the Bank had advanced money for the construction of hotels at Panama, Bogota and Caracas. He said that his Government hoped to obtain collaboration of the Hilton Hotels for this $4 million project. Ambassador Sparks replied that this was an Eximbank matter but Ecuador doubtlessly would at least have to prove the economic soundness of the hotel. Finally, Ambassador Chiriboga said that Ecuador needed $2 million to complete the Quevedo–Manta Highway. He concluded that he hoped that the Department would support these applications since his Government had little hope of obtaining them without such support.

3. Shipping Discrimination[2]

Chiriboga declared that the shipping discrimination question was the most serious existing between the U.S. and Ecuador. He explained that he hoped to eliminate discrimination if American ships agreed to go up the Guayas River to Guayaquil. He acknowledged that his Government had not accepted his recommendation to abolish discriminatory consular fees upon agreement of the Grace Line ships to go to Guayaquil but he thought it could be persuaded to do so.[3] Ambassador Sparks commented that he knew American ships had suffered severe damage to their hulls from dragging over the Guayas sand bars. Ambassador Chiriboga protested that Ambassador Mills' recent note had worsened matters as his Government objected to its strong terms, particularly the use of the word "gross" discrimination and to "the threat of retaliation". Ambassador Sparks inquired as to the nature of the note. Mr. Blankinship explained that Mr. Mills dispatched the note to the Foreign Office upon carefully cleared instructions from the Department. He further stated that the Foreign Minister's allegation that the problem should have been discussed before dispatching the note, seemed tenuous since the discrimination had been a matter of years of fruitless discussion. Therefore, the time seemed to have come for somewhat more forcefully showing the Ecuadoran Government the seriousness with which the U.S. Government regarded the discrimination.

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[1] Scheduled to convene at Quito, Ecuador, in 1959.

[2] Documents pertaining to this subject are contained principally in file 822.245.

[3] In a briefing memorandum prepared for Deputy Assistant Secretary Sparks, dated Dec. 15, 1954, Mr. Blankinship stated that the Department was currently attempting to obtain agreement from Grace Lines to cooperate in a joint United States–Ecuador committee to determine whether or not the company's ships could navigate up the Guayas River to Guayaquil without damage to their hulls (611.22/12–1554).

4. *Maritime Zone Claims*

Ambassador Sparks stressed the gravity with which the U.S. regarded the Ecuadoran claim to 200 miles seaward. Ambassador Chiriboga explained that his Government had great hopes for the 1955 Inter-American Conference on Maritime Claims. He said that Ecuador enjoyed much company. He referred to claims of Peru, Chile and to the item in this morning's *New York Times* outlining extensive territorial claims of Iceland. He claimed that he had strongly recommended to his Government that it grant fishing licenses by radio and abide by the agreement reached at Quito with the U.S. on fisheries problems. He said that he strongly disagrees with Minister of Economy Nebot that implementation of the Quito agreement should await the arrival of patrol boats from Germany.

5. *Guatemalan Refugees*

The Ambassador arose to leave, but before departing he confided that he wished unofficially to mention a report from a friend who had received it from the American Embassy in Quito to the effect that Guatemalan refugees were plotting in Ecuador. He said that as a strong anti-communist he wished to be informed of any such activities so that he could help counteract them. He said that he was speaking personally without instructions. He mentioned that some weeks ago Mr. Woodward raised the question of Ecuadoran recognition of the Castillo-Armas regime. He said that Ecuador was consulting Uruguay with a view to arranging joint recognition of the Guatemalan Government. Ambassador Sparks instructed Mr. Blankinship to obtain any information possible about subversive activities of Guatemalan refugees in Ecuador.

EL SALVADOR

POLITICAL AND MILITARY RELATIONS OF THE UNITED STATES AND EL SALVADOR[1]

Editorial Note

Representatives of El Salvador and the United States signed a General Agreement for Technical Cooperation at San Salvador on April 4, 1952, which entered into force on the same date. The Agreement was transmitted to the Department of State under cover of despatch 894, from San Salvador, dated April 7, 1952, not printed (816.00 TA/4–752). For text of the Agreement, see Department of State Treaties and Other International Acts Series (TIAS) No. 2527, or *United States Treaties and Other International Agreements* (UST), volume 3 (part 4), page 4713.

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[1] For previous documentation, see *Foreign Relations*, 1950, vol. II, pp. 864 ff.

716.00/6–1853

Memorandum by Gordon S. Reid of the Office of Middle American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward)[1]

SECRET

[WASHINGTON,] June 18, 1953.

PART I

El Salvador is the smallest country in Latin America and, thereby, the smallest in this hemisphere. In the small area is crowded the largest population per square mile of any country in the hemisphere. It seems to me that Salvadorans are among the most literate and intelligent of all the Central Americans. It is a conservative country which has suffered under the brutal dictatorship of General Martinez,[2] a theosophist, and considered by some a psychopath. At the same time it has had the experience of having been a primary object of the affections of the Communist Party back in 1931. With its very large population, its problems are in many ways more complex than any other country of Central America. They are primarily economic. Salvador's friendship with the United States has been one of long standing and Salvador's admiration for the United States reached its peak in the late 1830's and early 1840's when Salvador earnestly attempted to have itself included as a territory and an aspirant for statehood in our Union. It is interesting to note that Los Angeles, California, is the second largest city of Salvadoran population.

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[1] Addressed also the Deputy Director of the Bureau of Inter-American Affairs Neal and Officer in Charge of Central American and Panama Affairs Leddy.

[2] Reference is to Maximiliano Hernández Martínez, who ruled El Salvador from 1930 to 1944.

PART II

Party politics are unknown in Salvador although there are parties and labels. Salvador is a country of political personalism and, of course, a country with a long history of internal revolts by one faction against another. At the present time there are two parties. PRUD is the Government Party and PAR is made up of all the outs except the Communists. The PRUD, however, is really a party made up of those persons supporting President Osorio. It is very likely that the PRUD will be out of the picture when Osorio leaves office. It is a coalition party of some conservatives, some so-called "new dealers", the Army, and some intellectual socialists. The PAR is made up of the strange combination of persons extremely wealthy associating with persons of socialistic and communistic background in a party for the sole purpose of ousting the present government. It has failed in all recent elections to produce a vote of any size and until a leader comes along it probably is only a nominal opposition party. The Communist Party, outlawed as a legal party in Salvador, is now operating underground and its history is vigorous enough and long enough to make one view it with utmost suspicion at any particular time. There is no doubt but what the communist elements devote an enormous amount of their time to infiltrating both political parties but under the very firm hand of President Osorio their influence has been almost entirely mitigated up to the present time.

The Osorio Government came into office as the result of the revolution of March 14, 1948, when it overthrew in a bloodless coup the corrupt and vacillating government of President Castaneda.[3] A junta governed until elections were held and the Osorio Government finally took office. The junta was made up of five men; Osorio, the present Minister of Defense Colonel Bolanos,[4] the present Minister of Education Galindo Pohl,[5] Colonel Cordova,[6] now Military Attaché in Washington, and another civilian of no particular importance. Animosity and jealousy arising between Osorio, Cordova, and Bolanos resulted in Cordova's exile to Washington. The Osorio Government is a government which came into office with a social progress program of a non-communist type and has so far received much of the support of the wealthy landowners both because of the beliefs it expresses and because of the fear of Guatemala which is ever present in Salvadoran minds. To these minds the social progress envisaged and promised by Osorio seemed a much less fearsome thing than the Guatemalan variety. Should there be a lessening of the Guatemalan tension, it would almost seem axiomatic that Salvador's present government would be endangered.

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[3] Salvador Castañeda Castro, President, 1945–1948.

[4] Lt. Col. Oscar A. Bolaños.

[5] Reinaldo Galindo Pohl.

[6] Lt. Col. Manuel de J. Córdova.

PART III

So long as the coffee prices hold up it is to be expected that Salvador will have a favorable balance of payments and will have a continuation of the present prosperity. The government has imposed higher income taxes, higher coffee taxes, has developed plans for low cost housing, improvements in agriculture, social security, public health, and social welfare, and while insisting that the unions do not join in one national union, has encouraged individual unions to become stronger. At the same time it has called upon the World Bank, the United Nations, and the United States to aid with money and technical assistance. If it may be assumed that the government will remain in power for another six years, vast changes are to be expected in the life of Salvadorans.

The most important enterprise undertaken has been the development of the Lempa River as a source of hydroelectric power, eventually, for use by the whole country. This is the first such project in Central America and is one which has such far reaching possibilities for both Salvador and Honduras that it must be watched in its development with great care. Power is expected to flow from its generators in February or March, 1954, and by 1957 it is expected that its major potentialities for Salvador life will have been initiated, although its final possibilities will have only been touched.

Salvador has two railways, the Salvador Railway Company and the IRCA. Both are bankrupt. Each uses a different gauge of track. The Salvador Railway is primarily a coffee freight line and the IRCA is the Salvador life-line to the Caribbean through Guatemala. If the present trend of highway construction increases in Salvador it is very unlikely that either of these railways will continue to exist separately. It is my personal opinion that a merger of the two would be an economic benefit to the country.

PART IV

Pending with El Salvador at the present time are the following items:

1. The purchase of military equipment by the Salvadoran Government during the next several years. We are now awaiting a priority list from the Government by which our Defense Department may be informed of which items the Salvadorans wish to purchase first. Salvador has set aside $2,500,000 for this program.

2. The Military Mission. The problem on this is simply that Colonel Bolanos, as is normal with him, is once again procrastinating and finding himself unable to agree to a pay scale for any enlisted men accredited to the Mission. The head of the Mission is to be Colonel E. J. Macherey who has impressed all of us with his intelligence and ability. It is my belief that he should be allowed to proceed alone to Salvador and through him eventual agreement may be reached.

3. . . .

4. We have reiterated to the Salvadoran Government many times our belief that improved police methods would be of benefit to their country and we have recommended the International Police Corporation as an appropriate organization to handle such problems. Again, it is my personal belief that this should be pressed by the Ambassador and the officers of the Department, including Mr. Cabot.

5. The Government of the United States has for a year and a half been protesting informally the Immigration Law of Salvador which governs the deportation from Salvador of American citizens engaged in business in that country or who are in El Salvador for any other reason. Our fault-finding has been entirely based on the fact that the Minister of Interior under the present law may make an administrative decision to expel a United States citizen without that citizen having the right of appeal. It is our belief that it is necessary to change that law before American citizens may operate in Salvador with a sense of security.[7]

6. Although Salvador wishes to attract private capital for investment purposes it has failed in the following ways to make Salvador attractive to such capital:

(a) No guarantee of indemnity in case of confiscation or nationalization.

(b) No corporation law and corporation supervision of any modern variety which would give adequate security.

(c) The commercial code is in need of considerable revision and a commission charged to undertake this job was dissolved at the end of 1952 without making any progress.

(d) Salvadoran courts in all recent judgements appear to be completely prejudiced against any foreigner bringing a case before them.

(e) There is a lack of criminal law and police administration and criminal courts sufficiently up-to-date in their concepts of *habeas corpus* and similar principles of law to give security to American businessmen.

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[7] Documentation relating to this subject is in Department of State file 816.18.

(f) The recently enacted business license law authorizes the Minister of Finance to cancel a business license to anyone who *appears* to have defrauded the government of taxes and by another law such persons may be deported without trial.

(g) Present export controls give the government the power to prevent export of practically anything.

(h) The immigration law cited above together with the requirements for residence permits and the bureaucratic procedures for obtaining residence permits discourage foreign businessmen.

(i) The government's record of services to business and industry under the office established for that purpose has been very poor and the officer in charge is known to spend no more than two hours a day in his office.

(j) The present Minister of Labor[8] has shown himself to be prejudiced against foreign business in his labor-management relations.

In summary, an American citizen attempting to do business in Salvador (if he can get a residence permit) will find it extremely difficult to be successful unless he is married to a Salvadoran citizen (preferably wealthy and influential). Americans under the Point Four Program frequently forget that an American businessman is treated rather poorly by the present government since he carries no diplomatic passport or rights.

PART V

President Osorio is a military man who, although limited in his mental and educational background, has proven to be a strong opponent of communism and politically more able than was originally anticipated. He is extremely reserved and cold, taciturn and distrusting. He is of Indian background and is somewhat sensitive on this score. He has played off his cabinet members in such a way that his decision is always final in any issue carried to him, but he is very slow in making final decisions.

[Here follows comment on members of President Osorio's Cabinet and the Salvadoran Embassy in the United States.]

PART VI

Our Embassy in San Salvador is well manned at the present time and the only problem for me to report there is its relationship with TCA. It is still the opinion of George Butler, the head of the TCA Program, that to be connected with an Embassy is almost a fate worse than death and he has attempted in all possible ways to separate his people and his functions from any connection with the Embassy. This has brought about unhappy relations and forced Ambassador Duke to insist that the two groups stay away from each other. It is to be hoped that Ambassador McDermott can use his good offices to solve this during his tenure there. The Embassy buildings are in good condition and no immediate needs are known to me.

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[8] Mario Héctor Salazar.

PART VII

It is my judgement that during the next several years the primary job in El Salvador will be to encourage the Salvadorans to defend themselves against the Guatemalan onslaught. To accomplish this will mean that we must give every consideration to the Salvadoran request for arms and other security and intelligence measures; we must maintain our TCA program in that country and where justified we should encourage the EXIM Bank and World Bank to extend further loans. A second job for the United States Government in Salvador is to take those actions which will be considered appropriate to encourage greater trade and closer economic relations with Honduras, particularly in the opening of international highways. Encouragement of ODECA should also be considered. Lastly, by all reasonable methods we should endeavor to bolster the part of the Cabinet most friendly to the United States, but never by advocating economic measures which amount to more than the economy can absorb.

716.5 MSP/7-1453

The Ambassador in El Salvador (McDermott) to the Department of State

RESTRICTED SAN SALVADOR, July 14, 1953.

Totec 3.

Ref: Circular Telegram 1237 of June 29, 1953.[1]

Subject: Report to Director of Mutual Security on United States Aid Program in El Salvador, January–June 1953.

Summary:

Substantial and increasingly rapid progress was made during this period in attainment of major United States foreign policy objectives in El Salvador through technical assistance supplied under the Mutual Security Program. Objectives were clarified and extended during this period, under pressure of local political developments, to include an extensive program of rural rehabilitation and betterment. Action programs now in preparation to carry out this program will require substantial increases in United States technical assistance in a number of fields.

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[1] The referenced telegram requests reports from Chiefs of Mission concerning progress toward achieving objectives under the Mutual Security Program (700.5 MSP/6-2953). The lettered paragraphs below correspond to paragraphs in circular telegram 1237.

The outstanding current local need is for increased efficiency of organizations of all kinds, public and private, together with sound development of local industry. Local recognition of this need was reflected in the signing of a Productivity Center Agreement on May 14.[2] Personnel was requested by the Salvadoran Government to work in cooperation with private commercial, industrial and service enterprises to increase their efficiency from the technical and administrative as well as the organizational standpoints. This Agreement is also of key importance to United States program development since it constitutes a precedent for reorganization on a joint fund basis of the agricultural mission and should lead to establishment of a joint fund Education Mission in the near future.

Submission of the Productivity Center Agreement to the National Legislative Assembly brought to light the tendency toward economic nationalism among certain deputies. This development has caused delay in ratification of the Agreement.

Vigorous cooperation and warm appreciation continued to characterize the attitude of Salvadorans towards the United States technical assistance program. Of particular significance was the fact that awareness among local leaders of the DTC form of organization and its effectiveness for broad and balanced program planning and operation is beginning to bring about a corresponding closer integration among local Ministries, and others concerned with planning and carrying out programs for economic and social development.

At the request of the Salvadoran Government extensions were negotiated of agreements for Fisheries, Health, and Agriculture. Requests were fulfilled for technicians in public administration, labor standards, industrial safety, industrial hygiene, administration of orphanages, and agricultural courses in public schools. The range of these requests reflects the broad scale of needs of the local government for assistance and the decisive current importance of industrial development. At the same time, it may also reflect an increasing pressure on U.S. technical assistance resources due to failure of U.N. to supply promised technical assistance.

A) All agreements under the Mutual Security Program continued to be fully honored by the local government.

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[2] For text of the referenced agreement, signed at San Salvador, May 14, 1953, and entered into force on the same date, see TIAS No. 3122, or 5 UST (pt. 3) 2568.

C) A record coffee harvest and consequent prosperity has stimulated political, economic and social development of the country. There is a general optimistic outlook for stable economic conditions which will strengthen local interest in foreign investment.

D) El Salvador is generally adjudged the leader of ODECA (Organizacion de Estados Centro Americanos) following the withdrawal of Guatemala from the organization.[3] Internal conditions continue to be very stable.

E) United States technical assistance contributes materially to internal political stability, particularly in its role of improving rural living standards.

J) Major economic projects for the reporting period included the projected coastal highway which will open up a rich agricultural area, heretofore unexploited; completion of the country's first cement plant; continued research leading to improved port facilities, and progress toward completion of the Lempa River Hydroelectric project.

K) Favorable social effects of the Technical Assistance Program have become increasingly evident as the action programs have reached the point where achievement can be measured. Outstanding in this respect is the effect of the training program. The economic effects can be expected to increase rapidly with the change of emphasis by the government from general welfare projects to industrialization, as indicated by the signing of the Productivity Center Agreement.

L) The attitude of the government and general population toward the United States and its assistance program has been extremely favorable during this reporting period. Increased interest on the part of private organizations is evident as a result of increased emphasis on the economic development aspects of the program. The traditionally close political, social and economic ties with the United States have been strengthened by U.S interest as manifested through technical assistance. A marked increase in appreciation of the technical assistance program has become evident as the work of the various operating missions yield tangible results and can be evaluated.

MICHAEL J. MCDERMOTT

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[3] See footnote 3, p. 1069.

Cabot files, lot 56 D 13, "El Salvador"

The Assistant Secretary of State for Inter-American Affairs (Cabot) to the Ambassador in El Salvador (McDermott)

SECRET [WASHINGTON,] August 18, 1953.

DEAR MIKE: You will recall I mentioned to you before your departure for El Salvador that we have been trying since my visit to San Salvador in April to obtain from the Salvadoran authorities some concrete evidence of Guatemalan Communist efforts to infiltrate El Salvador. We have understood, for example, that Spanish Communists with Guatemalan official passports have been caught in subversive activities in

El Salvador, that several Guatemalan deputies have been similarly caught in subversive activities, and that a Guatemalan was caught in the tentative *coup d'état* in the late summer of 1952. The Salvadorans have as yet given us nothing to document these episodes, presuming that they happened.

In the course of our trip through South America,[1] we took advantage of the opportunity to discuss the Guatemalan situation with several other governments, notably the Brazilian. The upshot of it was that other governments indicated a receptivity toward action against Guatemala in the OAS *if* proof of Guatemalan infiltration was forthcoming.

Perhaps the Salvadoran authorities do not have adequate documentary proof as yet of Guatemalan Communist efforts to infiltrate El Salvador with the connivance of the Guatemalan Government. Even in this case, I think it would be exceedingly helpful if the Salvadoran authorities would from now on be alert of the possibilities of building up a case. I do not think that the Guatemalans have stopped their efforts in that sense and I hope that the Salvadoran authorities may some time catch them *in flagrante*.

Could you let me know at your earliest convenience.[2]

Very sincerely yours, JOHN M. CABOT

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[1] Apparent reference to Dr. Milton S. Eisenhower's factfinding mission to South America, undertaken at the request of President Eisenhower between June 23 and July 29, 1953; Assistant Secretary Cabot accompanied Dr. Eisenhower. For additional information, see the editorial note, p. 196.

[2] In a letter to Assistant Secretary Cabot, dated Aug. 26, 1953, Ambassador McDermott stated in part that he had suggested to Foreign Minister Canessa that he ask President Osorio to appoint a competent person to compile a list of cases showing "where Communists from Guatemala with Guatemalan passports, non-Guatemalans with Guatemalan passports or Guatemalan officials had been apprehended or temporarily arrested for subversive activities in El Salvador." Foreign Minister Canessa was reported to have replied that he would promptly take up the matter with President Osorio, but that he wished the United States would consider his suggestion of imposing an embargo against Guatemalan coffee as a means of changing the situation in that country. (716.001/8–2653)

716.001/8–2653

The Assistant Secretary of State for Inter-American Affairs (Cabot) to the Ambassador in El Salvador (McDermott)

SECRET [WASHINGTON,] September 12, 1953.

DEAR MIKE: Many thanks for your letter of August 26, 1953[1] with regard to the possibility of securing from the Salvadoran authorities evidence of officially-fostered Guatemalan infiltration into El Salvador. I am glad that you seem at last to have made some progress in this matter.

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[1] See footnote 2, *supra*.

I think that you might point out to Canessa very informally that an embargo on Guatemalan coffee would simply result in all probability in its diversion to European destinations. It might hurt the present regime in Guatemala a little economically, but it would give that regime a good weapon to attack our economic imperialism throughout the hemisphere. If we are to embark on any course not clearly within the norms of inter-American action, I most emphatically want to be sure that it will end in extirpating Communism from Guatemala.

OAS action would undoubtedly be a lenghty procedure and it may prove to be impossible or ineffective. It is, however, a mode of procedure at which no other republic could justifiably take offense. I want, therefore, to be very satisfied in my own mind whether it is a practical procedure or not. If we are satisfied that this undeniably legal procedure will not work, then, of course we must further canvass the situation, but I trust that Canessa will understand we do not wish to do anything brash which would make a bad matter worse.

I am very happy to hear that you are enjoying San Salvador and finding the work there interesting. It has always seemed to me a charming spot. With every good wish,

Very sincerely yours,

JOHN M. CABOT

716.56/10–153

Memorandum by Robert M. Sayre of the Office of Regional American Affairs to John W. Fisher of the Office of Middle American Affairs

SECRET [WASHINGTON,] October 1, 1953.

Subject: Salvador Arms Request.

You will recall that a special delegation[1] from El Salvador came to the United States to discuss with the Departments of State and Defense the procurement of arms. The first discussion was held on February 24, at which time the Salvadorans were informed that arms could be obtained in the United States (1) from commercial sources, (2) from the Department of Defense or (3) under the terms of a military assistance agreement with the United States. As to (3), it was made very clear that we could make no commitment on a military assistance agreement under which Salvador could obtain arms on a grant basis. The Salvadoran delegation promised to supply us immediately with a list of the arms desired.

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[1] The delegation consisted of Minister of Labor Salazar, Minister of Economy Jorge Arturo Sol Castellanos, and Chief of Staff Marco Antonio Molina.

We received such a list on February 25 and transmitted it the same day to the Department of Defense. The Department of Defense provided us with estimated prices on February 27, but on such short notice was unable to provide us with any availability data. on March 10 the Department of Defense furnished us with a "refined" price list after they had had an opportunity to study the request further, and this list was furnished the Salvadorans on March 11. They were advised that we could take no further action until we received a firm request from them for arms.

The Army Attaché[2] to El Salvador reported on March 2 that the Minister of Defense had requested his assistance in obtaining arms for approximately 10,000 men without going through the Department of State. On March 11, the Army Attaché reported that a delegation was being sent from El Salvador to attempt to obtain arms in the commercial market in addition to those which the United States was being requested to supply.

When on March 26, the Department had received no information from El Salvador as to the action Salvador planned to take on the list of equipment furnished by the Department of the Army on March 11, Mr. Cabot, in a discussion[3] with Ambassador Castro on Mr. Cabot's forthcoming trip to El Salvador, took the occasion to remind Ambassador Castro that we had received no reply on the military equipment list we had furnished and although we did not want to press the matter, we did want to make it clear that we were prepared to help in every way possible.

When Mr. Cabot was in El Salvador, President Osorio gave Mr. Cabot the list of equipment desired and it was transmitted on the same day by Embassy D–679 of April 24, 1953.[4] After clarification of some problems which the list presented, the request was approved and transmitted to the Department of Defense on May 12. The request stated that Salvador desired to buy the equipment over a period of four years, but gave no indication as to what part of the equipment was desired each year. When it appeared that the Salvadoran Embassy would be unable to furnish us, in any reasonable time, with information on the equipment from the list that was desired immediately, we advised the Department of Defense in a memorandum of May 25[5] to make a pricing and availability study and an offer on the entire list and leave it to the Salvadorans to select those items which they desired immediately. Any other items they desired would then have to be the basis of a further request because prices and availability would change.

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[2] Lt. Col. Henry J. Muller, Jr.

[3] A memorandum of the referenced conversation, dated Mar. 26, 1953, is in file 716.5614/3–2653.

[4] Not printed (716.56/4–2453).

[5] Not printed (716.5 MSP/5–2653).

The Department of the Army submitted on June 24 to the Salvadoran Ambassador a firm offer to sell the equipment desired at a cost of about $2.3 million.[6] At the same time the Department sent a copy of this offer to Embassy San Salvador so that it could be brought to the attention of the Salvadoran Government if the Embassy considered this appropriate. The Army's offer had a thirty day limit on it, but it was understood that this was a flexible limit and acceptance of the offer within a reasonable time would be satisfactory. Although both the Department and the Embassy have urged the Salvadorans to take action on this arms request, no acceptance of this offer has ever been made.

The Department of the Air Force made an offer on that part of Salvador's request involving Air Force equipment on July 31, but to date has not received any information from the Salvadoran Embassy regarding acceptance of the offer. We have received information, however, that the Salvadorans are not very happy about the Air Force offer both with respect to the non-availability of F–51's and the price of T–34's.

By a note of July 8,[7] the Salvador Embassy submitted an entirely separate request[8] for a small quantity of machine guns and rockets which would cost approximately $50,000. This request was approved and transmitted to the Department of Defense by a memorandum of July 14.[9] This request was modified by a note of July 24[10] to drop the machine guns from the list and add steel helmets. This modification was sent to the Department of Defense by memorandum of July 27.[11] The Department informally advised Ambassador Castro on August 24 of the total cost of the equipment covered by this request and the Army presented its formal offer to him on August 24.

I am informed by the Army that Ambassador Castro sent the money to cover the cost of this equipment on September 1. Before the Army could proceed with shipping instructions to the depots, etc., it required instructions for marking the matériel for shipment. This information was received from the Salvadoran Embassy on September 21. The Army has now prepared instructions to its supply people and it is expected that all of the matériel can be shipped from its present location within 60 days upon the basis of shipping instructions furnished by the Salvadoran Embassy.

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[6] The equipment requested by the Salvadoran Government included rockets and rocket launchers, small arms and ammunition, signal equipment, and quartermaster items.

[7] Reference is to Salvadoran note no. DE–109–A–820, dated July 8, 1953, not printed (716.5 MSP/7–853).

[8] Referred to as El Salvador Case No. 7.

[9] Not printed (716.5 MSP/7–853).

[10] Reference is to Salvadoran note no. DE–118–A–820, dated July 24, 1953, not printed (716.5 MSP/7–2453).

[11] Not printed (716.5 MSP/7–1453).

716.5 MSP/11–953

Memorandum by the Acting Special Assistant to the Secretary for Mutual Security Affairs (Nolting) to the Director of the Office of Military Assistance, Department of Defense (Stewart) [1]

CONFIDENTIAL [WASHINGTON,] November 9, 1953.

Subject: El Salvador Case No. 7

I refer to a memorandum of July 14, 1953 which transmitted a request from the Salvadoran Government for certain military equipment (El Salvador Case No. 7) and to a subsequent memorandum of July 27, 1953 which modified this request.[2]

The Salvadoran Government desires to have the equipment covered by this request for a celebration which is to take place in El Salvador on December 14, 1953. While this is the stated reason for desiring the equipment, there is reason to believe that El Salvador desires to have the equipment on this particular occasion because it will provide an opportunity to make a display of strength both for domestic reasons and to give pause to neighboring communist-influenced Guatemala which has been exerting somewhat continuous pressure against El Salvador. It is apparently for this reason that the Department of State has been approached several times in the last few months by the Salvadoran Ambassador inquiring as to the status of the request and stressing the importance which his Government attaches to it. For this same reason, I understand that this matter has been discussed informally between officers of the Departments of State and Defense on several occasions.

This Department considers it highly desirable to comply with the request of the Salvadoran Government for prompt delivery which will assist that Government to maintain its anti-Communist position, which is a factor of considerable weight in the stability of Central America.

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[1] Brig. Gen. George C. Stewart. This memorandum was drafted by Robert M. Sayre of the Office of Regional American Affairs.

[2] Regarding these memoranda, see footnotes 9 and 11, *supra*.

I would like to urge that everything possible be done to insure that this equipment may arrive in El Salvador on time, and would appreciate anything you may be able to do toward that end.[3]

Frederick E. Nolting, Jr.

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[3] Department of State records indicate that delivery of the equipment purchased by El Salvador under Case No. 7 took place in early December 1953.

Editorial Note

On December 9, 1953, President Eisenhower authorized the initiation of negotiations with El Salvador for the purpose of concluding a bilateral military assistance agreement. On January 7, 1954, Ambassador McDermott asked Foreign Minister Canessa whether the Government of El Salvador was interested in negotiating a military assistance agreement (despatch 274, from San Salvador, dated January 8, 1954, 716.5 MSP/1–854). In telegram 61, from San Salvador, dated February 12, 1954, Ambassador McDermott informed the Department of State that President Osorio was interested in a military assistance agreement (716.5 MSP/2–1254), and in telegram 63, from San Salvador, dated February 16, 1954, the Ambassador further reported that President Osorio had promised to send him a memorandum containing a schedule of dates for conversations and negotiations concerning an agreement (716.5 MSP/2–1654).

716.58/2–854

Memorandum by the Deputy Director of the Office of Regional American Affairs (Jamison) to the Director of Operations, Department of the Air Force (Ramey)[1]

SECRET [Washington,] February 8, 1954.

Subject: Extension of Military Aviation Mission Agreement with El Salvador.

Reference is made to your memorandum of December 15, 1953[2] to Mr. George O. Spencer, subject as above, in which the Department of the Air Force concurred in the extension of the Military Aviation Mission Agreement with El Salvador, which expired on December 31, 1953, but suggested an amendment which would give the United States Government exclusive criminal jurisdiction over members of the Air Force Mission in El Salvador.

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[1] Maj. Gen. R. M. Ramey. This memorandum was drafted by Mr. Sayre; cleared with the Office of Middle American Affairs.

[2] Not printed (716.58/12–1553).

Our Embassy at San Salvador was instructed to enter into negotiations with the Salvadoran Government to obtain the amendment to the Agreement desired by the Department of the Air Force, as well as certain other amendments so that the Agreement would reflect current United States Department of Defense organization. (See Department of State Instruction No. 46 of January 19, 1954 to Embassy San Salvador.[3]) This instruction was subsequently suspended, however, in view of the development of a press campaign in El Salvador and elsewhere in Central America in which allegations are being made that the United States is trying to extend its military influence in the area in an unwarranted manner and has obtained privileges for its military personnel in the case of Nicaragua which jeopardize that country's sovereignty. In view of these propaganda moves, as well as the fact that delicate negotiations with El Salvador for a military assistance agreement under the Mutual Security Program may soon begin, it is our judgment that efforts at this time to obtain El Salvador's agreement to the amendment mentioned above would not be successful and might even endanger the success of the negotiations for a military assistance agreement with El Salvador, Honduras and Nicaragua which are deemed to be of great importance in relation to the entire Central American situation. Approval by the Salvadoran legislature of the recently concluded Army Mission Agreement might also be affected adversely.

This Department believes, in view of the foregoing, and considering the general political situation in Cental America that it would not be desirable at this time to press for the proposed amendment to Article 11 of the Military Aviation Mission Agreement with El Salvador but recommends instead that the Agreement be extended in its present form and the amendment be sought at a later and more opportune time. Ambassador McDermott, who has been in Washington on consultation, concurs in this view.

I would appreciate being informed whether the Department of the Air Force would concur in extending the Agreement on this basis.[4]

EDWARD A. JAMISON

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[3] Not printed (716.58/12–1553).

[4] No reply to this memorandum was found in Department of State files. For text of the exchange of notes signed at San Salvador, Dec. 2, 1953, and Mar. 11, 1954, entered into force on the latter date (operative retroactively to Dec. 31, 1953), extending the Agreement of Aug. 19, 1947, providing for a U.S. Military Aviation Mission to El Salvador, see 4 UST 416.

716.5 MSP/5-2454: Telegram

The Ambassador in El Salvador (McDermott) to the Department of State

SECRET NIACT SAN SALVADOR, May 24, 1954—4 p. m.

119. Pouched Guatemala City and Tegucigalpa. During conversation this morning President twice emphasized extreme urgency receipt certain arms and more particularly munitions even before final signature of military assistance agreements. Said he had been informed US planes were today landing at Tegucigalpa with certain arms for Honduran Government. He said in view recent developments, and particularly reports that certain arms from SS *Alfhem* [1] had been unloaded at Chiquimula, he was ordering partial but secret mobilization. Added there were reports truck movement Chiquimula region and that despite possible consequences, Honduran planes would today make reconnaissance that area.

Osorio said would have Chief General Staff [2] make available to Army Attaché tomorrow minimum list most indispensable arms and munitions. At this point again emphasized urgency of need and said government would pay since it must have munitions although possibly its arms almost sufficient for emergency.

I do not know how they might be supplied but urge Department explore every possibility. I advance suggestion arms, munitions might be furnished Army Mission as training aids.

Please inform.[3]

MCDERMOTT

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[1] Reference is to the vessel which arrived at Puerto Barrios, Guatemala, on May 15, 1954, containing arms shipments of Czechoslovakian origin. For additional documentation on this subject, see pp. 1111 ff.

[2] Col. Alberto Escamilla.

[3] Telegram 121, to San Salvador, dated May 25, 1954, signed by Assistant Secretary Holland, stated that grant military assistance could be furnished expeditiously to El Salvador, provided that the Salvadoran Government approved the General Military Plan for the Defense of the American Continent, signed and ratified a military assistance agreement with the United States, and approved a related bilateral military plan prepared by the Department of Defense (716.5 MSP/5-2454).

The General Military Plan was approved by the Inter-American Defense Board on Nov. 15, 1951, and by the United States on Mar. 20, 1952; for pertinent information, see the editorial note, *Foreign Relations*, 1951, vol. II, p. 1028.

716.5 MSP/5–2454

The Ambassador in El Salvador (McDermott) to the Assistant Secretary of State for Inter-American Affairs (Holland)

SECRET SAN SALVADOR, May 24, 1954.

DEAR MR. SECRETARY: Since my discussion with you during Holy Week, the situation as affects us has very definitely changed in El Salvador. To refresh your recollection, a year ago last March El Salvador asked for a considerable quantity of arms from the United States through diplomatic and military channels. It sent a mission to the United States to obtain arms. According to accounts of members of the mission, they were treated well, wined and dined, but came back with nothing. The sad word spread through the Armed Forces and to other groups that the United States had not backed President Osorio whose supporters then became lukewarm, if not cool, towards us. Through the months they have gradually griped less and friendliness slowly increased to where one could say they were friendly. With the landing of the *Alfhem* cargo of arms at Puerto Barrios, these people became frightened and it was natural for some of them to feel that the United States, while stronger than Russia, could not be depended upon to deliver in a pinch.

True, for one reason or another, President Osorio has dragged his feet on the Military Assistance Agreement. He had promised to give me a favorable answer in June. Early in May he promised to give it to me on May 15. He did accept, with conditions, orally on May 20 and he gave me the text of his draft[1] on Friday, the 21st. It is based on the similar U.S. treaty with the Dominican Republic.[2] It is being forwarded in the first pouch which is the same pouch which carries this letter. He wishes to limit its scope to the Central American and Caribbean area but has not mentioned this fact in the draft which will be made public some day. He thinks it better that the limitation should be dealt with in secret military negotiations; nevertheless, he wishes to have the entire fact that there are any negotiations going on kept secret until such time as the agreements are implemented.

Please see Despatch No. 432 of May 20, 1954.[3] Please note the President's hope that now we will be able to assist him in establishing credit whereby he might acquire arms in addition to those which might be furnished under the Agreement to the value of about $2,000,000. This I am also sure he would want kept secret as he believes secrecy prevents the taking of any measures to counteract the results of the negotiations. He believes the element of surprise, "as in all military matters," desirable. Today President Osorio said he had learned the United States is air-lifting arms to Nicaragua and Honduras. He expressed the hope that El Salvador would not have to wait for arms until the conclusion of the pact which is pending.

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[1] A copy and translation of the referenced draft military assistance agreement were transmitted to the Department of State under cover of despatch 434, from San Salvador, dated May 24, 1954, not printed (716.5 MSP/5–2454).

[2] For text of the Military Assistance Agreement between the United States and the Dominican Republic, signed at Washington, Mar. 6, 1953, and entered into force on June 10, 1953, see TIAS No. 2777, or 4 UST 184.

[3] The referenced despatch reports a conversation between President Osorio and Ambassador McDermott concerning a military assistance agreement, arms shipments received by Guatemala, and labor unrest in El Salvador (716.5 MSP/5–2054).

I understand there has been a revival, since the *Alfhem* shipment, of criticism of the United States among Salvadorans. At the moment they are inclined to overlook the millions of dollars we have put into FOA assistance. According to their information the Russians made a gift to Guatemala. They don't want a gift but do want credit and an opportunity to buy the big stuff—planes and anti-aircraft artillery to defend the Lempa Dam and bridges. If the Guatemalans have tanks, the Salvadorans will also need tanks or anti-tank guns. As I see it tonight, El Salvador, Honduras and Nicaragua will stand together. We are helping two of them immediately but El Salvador is right on the border. If ever we made a gesture, now is the time to make it. If we create a good enough impression now, we may be able to get on with the things that concerned you last Holy Week.

[Here follow comments concerning the Embassy's need for additional clerical assistance.]

With kindest regards,

Most sincerely yours,

MICHAEL J. MCDERMOTT

716.5 MSP/5-3154

Memorandum of Conversation, by the Counselor of Embassy in El Salvador (Donovan)

SECRET [SAN SALVADOR,] May 31, 1954.

Participants: President Oscar Osorio;
Ambassador Michael J. McDermott;
Counselor of Embassy Andrew E. Donovan II.

Subject: Purchase of Arms by Salvadoran Government.

During a conversation with the President on the afternoon of May 31, his previous request for assistance in the immediate purchase of arms in the United States was discussed. A copy in Spanish was delivered to him of a list[1] which had been drawn up by the Army Attaché and the Chief of the United States Army Mission[2] after consultation with the Chief of Staff, Col. Escamilla. It was explained that in such purchases, the transportation costs were paid by the receiving government; that normally they would be sent by ship as the expense of air lifting was excessive, but that perhaps certain items might be available in the Canal Zone. It was also pointed out that since his first priority list presumably largely concerned small arms and munitions, they might be available from existing Army stocks and would not necessitate new procurement. Under these circumstances, if agreement of other interested government agencies in Washington was obtained, it might be possible to supply them with payment to be made 60 days after the date of their receipt.

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[1] Not printed.

[2] Col. Earl J. Machery.

The President said he understood it might not be legally possible to establish a credit, such as he had envisaged, of $2,000,000 for these purchases, adding that the 60-day term for payment was of course only an extension of time but not credit. He said that in view of these circumstances, he would have to select from the lists submitted to Washington those items which were particularly urgent, considering at the same time, delivery dates and prices. He said certain items on the list might have to be omitted at this time and other items again dependent upon prices, such as munitions, increased in size. Consequently, he said he would appreciate receiving information on prices and delivery dates in order that he could make further revision of the list. He said certain items might be purchased now from existing funds and others when provision is made in the budget of next year.

He said that in making his selections in accordance with the funds which might be available 60 days after the date of delivery, he would be guided by the obtention of sufficient military support to back up the political position of the government. He said that El Salvador, Honduras and Nicaragua have no intention of engaging in any actual armed conflict but that he must have the military support which will make his political position respected and which will not allow it to be jeopardized by greater military support on the other side.

Referring to the Military Assistance Agreement, he said that in his concept, it involved the training of Salvadoran forces for continental defense which was quite distinct from the necessity of reinforcing his forces for support of the political position of the government. He said he felt that over a period, perhaps 75,000 Salvadorans might be trained for continental defense and that the matériel supplied by the United States would be used in this general training rather than for the immediate necessities of his troops to confront any unusual situation which may develop in Guatemala.

The President was told that while we could not anticipate the military plan which might be worked out in conjunction with the negotiation of the agreement, it appeared likely that some agreed-upon group, a company or regiment or any other size unit that might be mutually agreed upon, would be supplied and trained to be ready for continental defense. He said that these matters would naturally be the subject of military discussions but that aside from the question of continental defense, he must provide for the military necessities of any given international situation.

716.5 MSP/5-2454

The Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in El Salvador (McDermott)[1]

SECRET [WASHINGTON,] June 17, 1954.

DEAR MR. AMBASSADOR: Thank you very much for your report (your letter of May 24[2]) on the Salvadoran reaction to the efforts we have made, to date, to comply with Salvador's requests for military assistance.

I frankly find it difficult to understand why the Salvadorans believe we should have accorded more favorable treatment to their requests for arms assistance than to those of Honduras and Nicaragua. I am sure you have done your best to explain our position, which is that: (1) military equipment can be offered to Salvador for purchase on the same payment terms as equipment offered to Salvador's friendly neighbors; (2) that it should be possible to deliver at least some of the purchased items expeditiously, particularly those which are available from U.S. military depots and do not require new procurement; and (3) that we are prepared to deliver military equipment expeditiously to Salvador under a bilateral military assistance agreement.

With regard to the equipment Salvador desires to purchase, we are unable to offer better payment terms than payment 60 days after delivery, because existing legislation prohibits us from going further than that.[3] We were able to provide some equipment, without cost, to Nicaragua and Honduras, and to make prompt delivery, without cost, to those countries, solely because they have concluded bilateral military assistance agreements with the U.S.

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[1] Drafted by George O. Spencer of the Office of Regional American Affairs.

[2] *Ante*, p. 1016.

[3] On June 14, 1954, in accordance with provisions of the Mutual Defense Assistance Act of 1949, Director of the Foreign Operations Administration Stassen informed Secretary Dulles that El Salvador was authorized to purchase from the Department of Defense military equipment and materials available from stock up to the value of $1 million on a 60-day deferred payment basis (letter, dated June 14, 1954, 716.5 MSP/6–1454).

For text of the Mutual Defense Assistance Act of 1949 (Public Law 329), approved Oct. 6, 1949, see 63 Stat. 716.

I am sorry to learn that the Salvadorans believe we were unresponsive to their request for military assistance last year. I am informed that both the Department of the Army and the Department of the Air Force submitted to the Salvadoran representatives in Washington, last June, written offers which specified prices and dates of delivery for virtually every item requested by Salvador for purchase. The delivery times on the items ranged from ninety days to one year. If Salvador had chosen to buy the equipment offered, a considerable amount of it would have arrived in Salvador long before now. In view of the critical situation in Central America at the present time, I am sure that the Pentagon will be prepared to deliver purchased equipment much more expeditiously than would have been possible last year. The Pentagon has received the list of equipment desired by Salvador for purchase, and we expect to have in the hands of the Salvadorans by early this week an estimate of prices and delivery times on individual items requested.

We are sending early this week by air pouch the comments of the Departments of State and Defense on the draft military assistance agreement submitted by El Salvador. You will note from those comments that the Salvadorans have failed to include in their draft several important provisions which the Congress requires be included in any bilateral military assistance agreement concluded by the U.S. If the Salvadoran reaction to our comments indicates an unwillingness to meet the U.S. statutory requirements, then we believe it would be unproductive for a military team to proceed to San Salvador for negotiations. If the Salvadoran reaction demonstrates otherwise, we are prepared to send a military team on very short notice.

[Here follow comments concerning the Embassy's request for additional clerical assistance.]

Sincerely yours,

HENRY F. HOLLAND

Holland files, lot 57 D 295, "El Salvador"

The Ambassador in El Salvador (McDermott) to the Assistant Secretary of State for Inter-American Affairs (Holland)

CONFIDENTIAL

SAN SALVADOR, July 9, 1954.

DEAR HENRY: I suggest that recognition be taken by our Government of the splendid cooperation given us by President Osorio in bringing about the recent cease-fire in Guatemala,[1] his invitation to Col. Monzón and Col. Castillo Armas to meet here in San Salvador.

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[1] For documentation relating to this subject, see pp. 1199 ff.

his strenuous efforts to bring them together and his fast cooperation on the morning of Thursday, July 1st, in helping me pin down Colonels Monzón and Castillo Armas until Ambassador Peurifoy got here.

The conversations beginning June 30 and continuing until 3:45 a.m. July 1st were conducted by President Osorio (who modestly says he chaired the meeting) with the President of the Asamblea, Peralta Salazar, who advanced the arguments for El Salvador, Col. Monzón and Col. Castillo Armas. Upon being informed of the breakdown by President Osorio, I telegraphed the Department (niact no. 2[2] repeated to Guatemala) and for several hours tried to reach you on the telephone which I succeeded doing shortly before 8:00 a.m. I immediately got word through to the President by telephone requesting that both planes be kept on the ground here and that we should do our utmost to persuade the two Colonels not to take off. I kept an appointment with President Osorio at 8:30. The two Colonels called on President Osorio, separately of course, to make their farewell calls. In the name of both our Governments, President Osorio and I requested the two Colonels to postpone their departure until at least 10 o'clock and later, until 11 o'clock. I informed them that Ambassador Peurifoy was flying over from Guatemala and that he would have a concrete proposal to make. Ambassador Peurifoy was delayed; I told them of reports I had through the airport radio that it was difficult to take off from Guatemala because of weather. Later I received a message through our radio communications that the plane was waiting for Ambassador Peurifoy to come from the National Palace where he had called on the other two members of the Junta. I passed this information on to both Colonels. Col. Castillo Armas gave me no further promises to stay after 11:00; he insisted that he must return to his troops, some of whom were so placed that they did not have access to drinking water. Col. [*President*] Osorio persuaded him to send one of his men to order in his name a rearrangement of the lines. Shortly after that officer's departure from the Presidential Palace, Col. Castillo Armas and all his guards left in a body. Asked whether they would be back, they said yes; they were merely going to get shaved and would return shortly, which they did. When Ambassador Peurifoy's plane was landing at the airport, Col. Castillo Armas' plane took off with only the crew and his emissary. I did not meet Ambassador Peurifoy because I dared not leave the Casa Presidencial.

I did not sit in on the private meetings that Ambassador Peurifoy had with Col. Castillo Armas and again with Col. Monzón, or the meetings he and Sr. Peralta Salazar had with both Colonels during the late afternoon and night of July 1st. The truce agreement was signed at

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[2] Dated July 1, 1954, p. 1200.

5:00 a.m. July 2. It was agreed that both Colonels would accompany Ambassador Peurifoy to Guatemala City at 10:00 a.m. July 2. It was clear, however, that Col. Castillo Armas would return to his troops and consult with his officers and advisors at Chiquimula but he said he would be back by 10:00 a.m. for the trip to Guatemala. We were at the airport awaiting him when we received word that he would not be able to get back before 4:00 p.m. or the following day. Col. Monzón decided to wait for him. On the morning of July 3, Col. Castillo Armas arrived at the airport and as he had not made a farewell call on President Osorio, he went directly to the Casa Presidencial where he had a long talk with the President. I am sure President Osorio put in some more good licks for cooperation and the future peace of Central America.

Today relations between the United States and President Osorio are, to say the least, excellent. We have sought to give him full credit for the truce. His hand has been greatly strengthened with the Army and all sections of public opinion. Some of the newspapers are nominating him for the Nobel Peace Prize. I think this would be an auspicious time for the President to send him a letter of appreciation and an autographed photograph. I am sure he would appreciate such a gesture.[3]

I extend to you my heartiest congratulations for your able handling of this most difficult Guatemalan problem.

With kindest wishes,

Sincerely,

MIKE

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[3] A memorandum by Secretary Dulles to President Eisenhower, dated July 20, 1954, recommending that he send a letter of appreciation and an autographed photograph to President Osorio for his part in bringing about the Guatemalan settlement, reads in part as follows: "It is to our advantage to emphasize the part played by the President of El Salvador in order to discourage the false reports that the United States was largely responsible for the establishment of the new Government." (Holland files, lot 57 D 295, "El Salvador") A draft of a proposed letter to President Osorio was attached to the Secretary's memorandum.

611.16/8-1954

Minutes of a Meeting, Held in the Department of State, August 13, 1954

CONFIDENTIAL

Subject: El Salvador

Participants: Assistant Secretary Holland
Ambassador Michael J. McDermott[1]
Mr. Raymond G. Leddy
Mr. John W. Fisher

President Osorio

Ambassador McDermott said one of the principal problems in San Salvador was handling the President and other government officials. Osorio was to be treated as an Indian, but a very sagacious one who had acquired considerable political knowledge during the past year. Osorio will do nothing which will make him appear as a satellite of the United States. This attitude is traditional in Salvador, which is only too conscious of the fact that it is the smallest country in the hemisphere. Ambassador McDermott recalled how the Salvadoran delegate, Guerrero, launched a strong anti-U.S.-intervention movement at the Sixth Inter-American Conference in 1928.[2] The seeds planted there have flourished throughout Latin America.

Osorio not only will sign nothing which would suggest making any Salvadoran act conditioned on U.S. approval, but is chary of receiving grants or gratuitous favors. An example of the kind of thing he wants from the U.S. is his request to Ambassador McDermott that the United States give its moral support to Salvador's efforts to get Honduras to join with Salvador in constructing a through toll road from La Union in Salvador to Puerto Cortes on the Caribbean coast of Honduras. This would give Salvador an alternative outlet to the Atlantic, freeing it from dependence on the IRCA. The uncompleted portions of the road are all in Honduras and would require about $12 million to finish.

Osorio proposes an IBRD loan to be guaranteed by the two Central American Governments. President Black of the Bank is supposed to be favorable, but Galvez is reluctant. Osorio wants the United States to help get Galvez in line. Mr. Holland thought offhand that the highway was a meritorious project.

Ambassador McDermott described Osorio's careful neutrality during the Castillo Armas rebellion. In conversations Osorio said Salvador

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[1] Ambassador McDermott was in Washington for consultations at the Department of State.

[2] For documentation on the Sixth International Conference of American States, held at Habana, Jan. 16–Feb. 20, 1928, see *Foreign Relations*, 1928, vol. I, pp. 527–621.

"would incline" toward Honduras in the event Arbenz won and invaded that country. Lower ranking Salvadorans were much more affirmative in expressing support of Honduras.

Communist Problem

The Ambassador stated it isn't presently of consequence but it could easily become so. While the rich are becoming richer, the poor are getting poorer, even despite high coffee prices.

Osorio is trying to expand the middle class, and has not directly clashed with the rich. He has no organized opposition either from right or left, and appears to be drifting toward the conservative side. Osorio has no visible successor. Colonel Bolaños, a presidential aspirant, would be an unfortunate choice. He is indecisive and ignorant of government.

Osorio showed Ambassador McDermott letters from students, women and certain union groups praising his neutral position. Osorio told Ambassador McDermott the signers were "Communistic".

Labor

Salvador's labor movement is Government sponsored and controlled. No confederation is allowed to exist and the Government restricts the right to strike. Ambassador McDermott pointed out that Salvadoran railroad workers have never forgotten that the Guatemalan railroad union failed to support them a number of years ago, and the Salvadorans have ever since withheld their support from the Guatemalan organization.

Somoza[3]

The Ambassador characterized Somoza as a man bent on establishing a family dynasty in a country which he virtually owns. Somoza is a rich man and has not avoided rough stuff to become so.

Osorio is neither intimate nor distant from Somoza. Osorio's interest in obtaining anti-aircraft guns to protect his new Lempa hydroelectric dam was perhaps prompted as much by the existence of the Nicaraguan air force as the Guatemalan.

Figueres[4]

Osorio tried to be friendly with Figueres, but feels that Pepe went back on his word, given during a visit to Salvador as President-elect, to refrain from stirring up trouble with Somoza. As a result, Osorio would mediate the present squabble only on written request.

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[3] Anastasio Somoza García, President of Nicaragua.

[4] José Figueres Ferrer, President of Costa Rica.

Ambassador McDermott thought Figueres . . . caused his country to go broke in his . . . war in 1948. He thought he would do so again. Figueres voices support of the United States, but that is as far as it goes.

Army Mission Agreement

Ambassador McDermott had not seen the latest instruction on this topic, which arrived in Salvador after his departure for Washington. He will attempt again to conclude the agreement, held up by certain Salvadoran nationalistic feelings relating to our article on exclusive functioning in the military advisor field. The Salvadorans like the present Army Mission Chief, Col. Machery, and would probably keep him on in the country indefinitely despite the continuing lack of an agreement.[5]

MDAP

There has been no progress toward agreement since Osorio took up the question to "study". It was recalled that the Salvadorans originally insisted on maintaining secrecy at least until after desired military equipment arrived in the country.

Ambassador McDermott felt we should not push it but let the Salvadorans know, at least for the present, that a military defense assistance pact with us is available if they want it.

It appeared that Salvador was principally interested in a military agreement as a means of acquiring a loan for the purchase of arms. This is, of course, unfeasible.[6]

Commercial Treaty

The United States proposed a revised Friendship, Commerce and Navigation treaty with Salvador months ago,[7] but has had no response. Ambassador McDermott recommended that, if Salvador desired such a treaty, it should be negotiated in Washington with Ambassador Castro.

Technical Assistance

The agricultural program has been concluded and the industrial productivity agreement is progressing toward conclusion.

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[5] An Agreement providing for a U.S. Military Mission to El Salvador was signed at San Salvador, Sept. 23, 1954, and entered into force, Nov. 17, 1954; for text, see TIAS No. 3144, or 5 UST (pt. 3) 2870.

[6] No military assistance agreement was signed with El Salvador in 1954.

[7] No treaty of friendship, commerce, and navigation was signed with El Salvador in 1954.

Inter-American Highway

Salvador was slow to take up and match the proffer of $500,000 to continue work on the Inter-American Highway. Salvador's share was $200,000. Work was started and scheduled for completion in December 1954, but it has gone so slowly that it will be at least a year late. Salvadorans have worked up very little interest in our desire to pave the 50 miles at the eastern end of the highway.

[Here follows discussion concerning the Embassy's need for clerical assistance.]

Rio Conference[8]

Ambassador McDermott said Salvador's basic position was that there should be a floor price on coffee. Proponents of this thesis argue it would give the necessary assurance to permit growers to pay higher wages. Mr. Holland said the United States could obviously accept no such proposition.

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[8] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly referred to as the Rio Economic Conference), held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation concerning the meeting, see pp. 313 ff.

GUATEMALA

RELATIONS OF THE UNITED STATES AND GUATEMALA, WITH SPECIAL REFERENCE TO THE CONCERN OF THE UNITED STATES OVER COMMUNIST ACTIVITY IN GUATEMALA[1]

Editorial Note

By an exchange of notes signed at Guatemala City, January 7 and 8, 1952, and entered into force on the latter date, Guatemala agreed to the application of sections 511 (b) and 515 of the Mutual Security Act of 1951 to the technical cooperation programs operated in Guatemala by the United States. The notes were transmitted to the Department of State under cover of despatch 820, dated February 13, 1952, not printed (814.00 TA/2-1352). For text of the notes, see *United States Treaties and Other International Agreements* (UST), volume 3 (part 4), page 4728, or Department of State Treaties and Other International Acts Series (TIAS) No. 2634; for text of the Mutual Security Act (Public Law 165), approved October 10, 1951, see 65 Stat. 373.

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[1] Continued from *Foreign Relations*, 1951, vol. II, pp. 1415 ff.

814.2612/2-552

Memorandum of Conversation, by Edward W. Clark of the Office of Middle American Affairs

SECRET [WASHINGTON,] February 5, 1952.

Subject: Roadbuilding Equipment for Guatemala

Participants: MID—Mr. Nufer[1]
Mr. Siracusa[2]
Mr. Clark
AR—Mr. David Clark
E—Mr. Evans[3]
Mr. Pollard[4]

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[1] Albert F. Nufer, Director, Office of Middle American Affairs.

[2] Ernest V. Siracusa, Officer in Charge, Central America and Panama Affairs.

[3] John W. Evans, Deputy Director, Office of International Materials Policy.

[4] George M. Pollard, Chief, Machinery and Manufactured Products Branch, Manufactured Products Staff.

Department of Commerce
Mr. Wythe[5]
Mr. Rafferty[6]
Mr. Strassman
Mr. Merrell[7]
Mr. Dunning[8]
National Production Authority
Mr. Brister[9]
Mrs. Dulles[10]
Bureau of Public Roads
Mr. MacDonald[11]
Mr. Harrison[12]

Mr. Clark (MID) began the discussion by stating that information had been received from our Embassy in Guatemala that the Guatemalan Government desired to purchase a large quantity of road-building equipment in the United States and was expected to send a special agent or mission to Washington to assist the Guatemalan Embassy in arranging for the purchase of this equipment. In view of the special situation in Guatemala and our policy with regard to providing assistance to that country, it had been deemed advisable to call a meeting of those with whom the Guatemalans would probably come into contact in their efforts to obtain the desired equipment in order to formulate a common policy as to how they should be handled.

As all those present were aware, our policy toward Guatemala, stated briefly, was to refrain from extending priority assistance for materials and equipment in short supply; also to cut back on quotas and allocations as much as possible without, however, exposing ourselves to charges that we were violating any of our Inter-American commitments. It was necessary, therefore, to be selective and relatively cautious in the application of this policy in order to avoid the possibility that Guatemala could document a case in the Organization of American States or elsewhere that we were engaging in economic warfare in violation of our commitments.

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[5] George Wythe, Director, American Republics Division, Office of International Trade, Bureau of Foreign and Domestic Commerce.

[6] William A. Rafferty, Chief, Mexico–Central American Section, American Republics Division, Office of International Trade, Bureau of Foreign and Domestic Commerce.

[7] Mark Merrell, Assistant Director, Projects and Technical Data Division, Office of International Trade, Bureau of Foreign and Domestic Commerce.

[8] Carroll W. Dunning, Director, Producer's Equipment Division, Office of International Trade, Bureau of Foreign and Domestic Commerce.

[9] William C. Brister, Chief, Latin American Branch, Foreign Division, Policy Coordination Bureau.

[10] Eleanor Lansing Dulles, detailed to the National Production Authority from the Department of State.

[11] Thomas H. MacDonald, Commissioner, Bureau of Public Roads, Department of Commerce.

[12] John L. Harrison, Assistant to the Chief, Inter-American Regional Office.

The reason for this meeting, then, was to prepare for the arrival of the Guatemalan mission. Obviously, it was highly important that we all had the same understanding with regard to strategy and tactics and that we all pursued the same line when talking to the Guatemalans.

It was our view, Mr. Clark said, that our objective should be to see to it that Guatemala obtained as little of this equipment as possible. We should be careful, however, not to reveal this fact to the Guatemalans. We should receive them with the utmost courtesy and conduct ourselves in such a way as to give the impression that we were trying to be as helpful as possible. We should stress and restress the tight supply situation as the basis for inability to issue licenses or provide priority assistance. At no time during conversations should reference be made to the political situation in Guatemala or to United States–Guatemala relations. If the Guatemalans suspect or conclude among themselves that we are not being fully cooperative, we will have succeeded entirely in our purpose. However, we should never by our actions give them proof that we are not being cooperative.

Some of the equipment which the Guatemalans would be seeking would not, of course, be in short supply. We would no doubt have to license this equipment and this fact could be pointed to as evidence that there was no embargo on shipments to Guatamala.

Mr. Wythe stated that Mr. Chocano[13] had been in yesterday to talk to Mr. Rafferty and Mr. Strassman about licensing procedures. He stated that they had discussed the situation in general terms with Chocano and had made an appointment for him to see Mr. Merrell of the Project Licensing Division on the following day. Mr. Rafferty and Mr. Strassman had been careful, he said, to restrict the conversation to the technicalities of licensing procedures and the general supply situation. Mr. Wythe said the problem now was whether Mr. Merrell should advise Chocano to apply for a project license or suggest that it would be better to apply for licenses on an individual order basis.

A general discussion ensued and it was ultimately decided that Mr. Merrell should follow normal procedure and explain fully to Chocano the advantages and disadvantages of obtaining a project license. He would, during the conversation, express grave doubts that the National Production Authority would give the project as a whole priority status and would refer to the two cases of roadbuilding projects in Peru and Turkey which had been turned down by the NPA. He would mention that in all probability the project would need the strong support of the State Department to obtain consideration from the NPA and inquire whether Chocano had discussed the matter with the State Department.

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[13] Alfredo Chocano Becerra, Counselor, Guatemalan Embassy.

He would suggest that perhaps it would be best to put the project on an individual licensing basis and offer to make arrangements for Chocano to see Mr. Dunning, Chief of the Licensing Branch of the Office of International Trade. In his turn, Mr. Dunning would explain licensing procedures and stress the fact that much of the equipment which Guatemala needed was in extremely short supply.

It was emphasized several times during the discussion that the Guatemalans should be treated on the surface in the same way as the representatives of any other country trying to obtain materials and equipment in this country.

Mr. Dunning mentioned that his section has been holding up licenses for several months on a number of orders and that the pressure by U.S. suppliers for his section to issue the licenses was increasingly sharp. He mentioned in particular an order of jeeps by the H. J. Nichol Company and a number of road scrapers. Mr. Dunning said that these items were not in short supply, were on the docks waiting for shipment and there was no proper basis for continuing to hold them up unless we were to classify Guatemala as a security risk. It was agreed that under these circumstances licenses would have to be issued for at least a part of these orders.

It was the consensus of opinion that the key to the success of the Guatemalan mission was whether or not it was able to obtain heavy tread tractors. Without them much of the other equipment the mission might succeed in getting would be useless. There was general agreement that tractors of this kind could not be obtained without priority assistance.

When the meeting adjourned, general agreement had been reached that all parties would follow the course outlined above when approached by Guatemalan officials.

INR-NIE files

National Intelligence Estimate[1]

SECRET
NIE-62

WASHINGTON, March 11, 1952.

PRESENT POLITICAL SITUATION IN GUATEMALA AND POSSIBLE DEVELOPMENTS DURING 1952[2]

THE PROBLEM

To analyze the present political situation in Guatemala and possible developments during 1952.

CONCLUSIONS

1. The Communists already exercise in Guatemala a political influence far out of proportion to their small numerical strength. This influence will probably continue to grow during 1952. The political situation in Guatemala adversely affects US interests and constitutes a potential threat to US security.

2. Communist political success derives in general from the ability of individual Communists and fellow travelers to identify themselves with the nationalist and social aspirations of the Revolution of 1944.[3] In this manner, they have been successful in infiltrating the Administration and the pro-Administration political parties and have gained control of organized labor upon which the Administration has become increasingly dependent.

3. The political alliance between the Administration and the Communists is likely to continue. The opposition to Communism in Guatemala is potentially powerful, but at present it lacks leadership and organization. So far Communist-inspired Administration propaganda has succeeded in stigmatizing all criticism of Communism as opposi-

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[1] A cover sheet, dissemination notice, and title sheet are not printed. National Intelligence Estimates (NIE's) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIE's were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Intelligence Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of NIE's.

[2] A note on the title sheet reads as follows: "The intelligence organizations of the Department of State, the Army, the Navy, the Air Force, and the Joint Staff participated with the Central Intelligence Agency in the preparation of this estimate. All members of the Intelligence Advisory Committee concurred in this estimate on 6 March 1952. See, however, footnotes to paragraphs 7 and 27."

[3] For documentation relating to the Guatemalan revolution of 1944 and recognition of a new regime by the United States, see *Foreign Relations*, 1944, vol. VII, pp. 1132 ff.

tion to the Administration and to the principles of the still popular Revolution of 1944.

4. Future political developments will depend in large measure on the outcome of the conflict between Guatemala and the United Fruit Company. This conflict is a natural consequence of the Revolution of 1944, but has been exacerbated by the Communists for their own purposes.

5. If the Company should submit to Guatemalan demands the political position of the Arbenz[4] Administration would be greatly strengthened. It is probable that in this case the Government and the unions, under Communist influence and supported by national sentiment, would exert increasing pressure on other US interests, notably the Railway.[5]

6. If the Company should withdraw from Guatemala a worsening economic situation would probably result. It is unlikely, however, that the economic consequences during 1952 would be such as to threaten political stability unless there were a coincident and unrelated decline in coffee production, prices, or markets.

7. Any deterioration in the economic and political situations would tend to increase the Administration's dependence on and favor toward organized labor, with a consequent increase in Communist influence. However, it is unlikely that the Communists could come directly to power during 1952, even though, in case of the incapacitation of President Arbenz, his present legal successor would be a pro-Communist.*

8. In present circumstances the Army is loyal to President Arbenz, although increasingly disturbed by the growth of Communist influence. If it appeared that the Communists were about to come to power in Guatemala, the Army would probably prevent that development.

9. In the longer view, continued Communist influence and action in Guatemala will gradually reduce the capabilities of the potentially powerful anti-Communist forces to produce a change. The Communists will also attempt to subvert or neutralize the Army in order to reduce its capability to prevent them from eventually taking full control of the Government.

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[4] Jacobo Arbenz Guzmán, President of Guatemala.

[5] International Railways of Central America (IRCA).

* The Special Assistant, Intelligence, Department of State, would substitute the following paragraph: "Any deterioration in the economic and political situation would probably at first tend to increase the Administration's dependence on and favor toward organized labor, with a consequent increase in Communist influence. However, an economic crisis might force the Government to turn against the Communists in order to save its political position. On the other hand, it is unlikely that the Communists could come directly to power during 1952, even though the incapacitation of President Arbenz would bring a pro-Communist as his legal successor." [Footnote in the source text.]

DISCUSSION

The Arbenz Administration

10. The present political situation in Guatemala is the outgrowth of the Revolution of 1944. That Revolution was something more than a routine military coup. From it there has developed a strong national movement to free Guatemala from the military dictatorship, social backwardness, and "economic colonialism" which had been the pattern of the past. These aspirations command the emotional loyalty of most politically conscious Guatemalans and the administration of President Arbenz derives corresponding strength from its claim to leadership of the continuing national Revolution.

11. President Arbenz himself is essentially an opportunist whose politics are largely a matter of historical accident. Francisco Arana,[6] the principal military leader of the Revolution of 1944, became Chief of the Armed Forces under President Arévalo[7] and Arbenz, a lesser member of the military junta, became Minister of Defense. As the Arévalo Administration turned increasingly leftward in its policies Arana opposed that trend. His possible election to the Presidency in 1951 became the one hope of moderate and conservative elements in Guatemala. In view of Arana's political position, Arbenz, his personal rival for military leadership, became the more closely associated with Arévalo and the leftist position in Guatemalan politics. The assassination of Arana in 1949[8] cleared the way for Arbenz' succession to the Presidency in 1951.

12. By 1951 the toleration of Communist activity which had characterized the early years of the Arévalo Administration had developed into an effective working alliance between Arévalo and the Communists. Arbenz, to attain the Presidency, made with the Communists commitments of mutual support which importantly affect the present situation. He did not, however, surrender himself completely to Communist control.

Communist Strength and Influence

13. The Communist Party of Guatemala has no more than 500 members, of whom perhaps one-third are militants. The Party, however, has recently reorganized and is actively recruiting, especially in Guatemala City, on the government-owned coffee plantations, and among United Fruit Company workers. It is in open communication with international Communism, chiefly through the Communist-controlled international labor organizations, the Latin American CTAL and the worldwide WFTU.

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[6] Col. Francisco Javier Arana.

[7] Juan José Arévalo Bermejo, President of Guatemala, 1945–1951.

[8] Colonel Arana was assassinated in Guatemala on July 18, 1949.

14. The Communists have achieved their present influence in Guatemala, not as a political party, but through the coordinated activity of individual Communists in the leftist political parties and labor unions which emerged from the Revolution of 1944. The extension of their influence has been facilitated by the applicability of Marxist clichés to the "anti-colonial" and social aims of the Guatemalan Revolution.

15. With the assistance of the Government, Communist and Communist-influenced labor leaders have been the most successful organizers of Guatemalan labor, especially among the United Fruit Company and government plantation workers. Their formation of the General Confederation of Guatemalan Workers in 1951 and Government pressure for labor unity have facilitated the extension of their control over all organized labor. They have been less successful in converting to political Communism the mass of labor, which is illiterate and politically inert. In the important railway workers' and teachers' unions there is opposition to association with Communism.

16. Through their control of organized labor and their influence within the pro-Administration political parties the Communists have been successful in gaining influential positions within the Government: in Congress, the National Electoral Board, the Institute of Social Security, the labor courts, the propaganda office, and the official press and radio. Their influence is extended by the presence of an indefinite number of Communist sympathizers in similar positions. The Communists do not fully control the Administration, however. Over their protests President Arbenz has recently dismissed a pro-Communist Minister of Education and appointed a non-Communist Minister of Communications.

17. If President Arbenz should become incapacitated his legal successor would be Julio Estrada de la Hoz, the President of Congress, an ardent nationalist. . . . In this event, however, the Army would probably seize power itself in order to prevent the Communists from gaining direct control of the Government.

The Anti-Communist Potential in Guatemala

18. Various elements in Guatemala, including many loyal adherents of the Revolution of 1944, view with misgiving the rapid growth of Communist influence in that country. The principal elements of this latent anti-Communist potential are:

a. The Catholic hierarchy, implacably opposed to Communism. While its influence has been considerable, the Church has been handicapped by the small number of priests and by a lack of a constructive social program.

b. Guatemalan landholding and business interests. These interests, which are now enjoying prosperity, resent increasing taxes and labor costs, but so far have not been subjected to direct attack, as have corresponding foreign interests. They may shortsightedly hope for advantage at the expense of these foreign interests.

c. The strong railway workers' union, which has repudiated its adherence to the Communist-controlled Confederation and has ousted its former leaders.

d. A large proportion of university students and an important segment of leadership in the teachers' union.

e. The Army, which has shown some concern over the growth of Communist influence. The Army command is loyal to President Arbenz and to the Revolution of 1944, but is probably prepared to prevent a Communist accession to power.

19. So far, Communist-inspired Administration propaganda has been successful in stigmatizing all criticism of the Administration as opposition to the principles of the Revolution of 1944. So long as it remains possible to discredit opposition to Communism by identifying it with opposition to the Revolution of 1944 and with support of foreign "colonialism," it is unlikely that a coherent, sustained, and effective opposition to Communism will develop. Moreover, political dissatisfaction in Guatemala has been strong enough to unify the pro-Administration parties, and to prevent members of these parties from openly opposing the Communists. For the period of this estimate, therefore, it is likely that the alliance between the Administration and the Communists will continue, and that the potentially powerful opposition to Communism will remain ineffective.

The United Fruit Company Crisis

20. The United Fruit Company, which conducts extensive operations in nine Latin American countries, dominates Guatemalan banana production. The Company controls the only effective system of internal transportation, the International Railways of Central America. Through its merchant fleet the Company has a virtual monopoly of Guatemalan overseas shipping. It owns or leases large tracts of land in Guatemala and is second only to the Government as an employer of Guatemalan labor.

21. The important position of the United Fruit Company in their economy has long been resented by Guatemalan nationalists, regardless of the fact that the wages and workers' benefits provided by the Company were superior to any others in the country. When the Revolutionists of 1944 undertook to "liberate" Guatemala from "economic colonialism" they had the Company specifically in mind. The Government can therefore count on the support of Guatemalan national sentiment in its conflict with the Company.

22. The present crisis had its origin in the virtual destruction of the Company's principal Guatemalan plantation by wind storms in September 1951. In view of previous Communist-inspired labor troubles, the Company unsuccessfully demanded Government assurances against

future increased labor costs before it would undertake to rehabilitate the plantation. Meanwhile the Company suspended some 4,000 out of the 7,000 workers at that plantation. With Government support, the Communist-led union demanded that these workers be reinstated with pay for the period of suspension and the labor court ruled in favor of the union. The Company refused to comply with the court's decision and in consequence certain of its properties have been attached to satisfy the workers' claim for back pay. The scheduled sale of these properties has been postponed, however, in circumstances which suggest the possibility of a compromise settlement of the dispute.

23. The Communists have an obvious ulterior purpose in forcing the issue with the Company. The Government, however, probably does not desire to drive the Company from Guatemala at this time, preferring that it remain in the country on the Government's terms. The Company's employees also have an interest in the continuation of its operations. For its part, the Company has an interest in preserving its investment in Guatemala.

Possible Future Developments

24. Future developments will depend in large measure on the outcome of the struggle between the United Fruit Company and the Guatemalan Government.

25. If the Company should submit to Guatemalan demands the political position of the Arbenz Administration would be greatly strengthened. The result, even if it were a compromise agreement, would be presented as a national triumph over "colonialism" and would arouse popular enthusiasm. At the same time the Company would continue its operations, paying taxes and wages. The Government and the unions, under Communist influence and supported by national sentiment, would probably proceed to exert increasing pressure against other US interests in Guatemala, notably the Railway.

26. If the Company were to abandon its investment in Guatemala there would also be a moment of national triumph, but it would soon be tempered by realization of the economic consequences of a cessation of the Company's operations. It is unlikely, however, that these consequences during 1952 would be severe enough to threaten the stability of the regime unless there were a coincident and unrelated decline in coffee production, prices, or markets.

27. Any deterioration in the economic and political situations would tend to increase the Administration's dependence on and favor toward organized labor, with a consequent increase in Communist influence. However, it is unlikely that the Communists could come directly to

power during 1952, even though, in case of the incapacitation of President Arbenz, his present legal successor would be a pro-Communist.†

28. If during 1952 it did appear that the Communists were about to come to power by any means, the anti-Communist forces in Guatemala would probably move to prevent that development. In particular, the Army command would probably withdraw its support from the Administration and seize power itself.

29. In the longer view, continued Communist influence and action in Guatemala will gradually reduce the capabilities of the potentially powerful anti-Communist forces to produce a change. The Communists will also attempt to subvert or neutralize the Army in order to reduce its capability to prevent them from eventually taking full control of the Government.

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† The Special Assistant, Intelligence, Department of State, would substitute the following paragraph: "Any deterioration in the economic and political situation would probably at first tend to increase the Administration's dependence on and favor toward organized labor, with a consequent increase in Communist influence. However, an economic crisis might force the Government to turn against the Communists in order to save its political position. On the other hand, it is unlikely that the Communists could come directly to power during 1952, even though the incapacitation of President Arbenz would bring a pro-Communist as his legal successor." [Footnote in the source text.]

714.56/9-552

Edward W. Clark of the Office of Middle American Affairs to the First Secretary of the Embassy in Guatemala (Krieg)

CONFIDENTIAL [WASHINGTON,] September 5, 1952.

OFFICIAL-INFORMAL

DEAR BILL: Reference is made to your letter of August 29, 1952,[1] to Ernie Siracusa with which you forwarded a memorandum prepared by Colonel Martin,[2] the new Air Attaché, in which the latter set forth his views regarding the export of F-51 fighter planes to Guatemala. I am glad to see that Colonel Martin's views correspond closely with those the Department has held over the past several years. As you are aware, the Guatemalans have been endeavoring to obtain fighter planes for a number of years and upon each occasion we were able successfully to block their efforts on technical grounds without having to do so on grounds of political considerations. The technical grounds were, as I recall them, that the United States Government could not sell military equipment to Guatemala under the terms of the MDA[3] as the Rio Treaty[4] was not in effect between the United States and Guatemala and secondly that F–51 planes were being used in Korea and were simply not available for sale to other governments.

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[1] Not found in Department of State files.

[2] Col. Vernon P. Martin.

[3] Apparent reference to the Mutual Defense Assistance Act (Public Law 329), approved Oct. 6, 1949; for text, see 63 Stat. 714.

In the present case it is again our intention to block the Guatemalan effort, but we desire to do so again on technical grounds. From Ernie Siracusa's conversation with Mr. Martin[5] in the Munitions Division (see memorandum of conversation dated August 19, 1952,[6] copy of which was sent to the Embassy), it would appear that the Munitions Division can find a number of legitimate technical ways to stall along on its consideration of the application for an export license and eventually to find technical grounds to turn it down. Thus we will not be faced, I hope, with the problem of having to decide this question on general political grounds.

With regard to the last paragraph of Colonel Martin's memorandum, I might say that in conversations which we had in the Pentagon two years ago with Colonel Giron,[7] then head of the Guatemalan Air Force, when he was here in Washington endeavoring to obtain fighter planes, the angle about prohibitive cost and upkeep of the aircraft was stressed and restressed by the Air Force people to Colonel Giron. It was obvious at the time that their arguments made no impression on Colonel Giron whatever and his attitude was that money was no object. He was bound and determined to purchase as many F–51's as he could get without regard to cost.

In connection with this whole problem of Guatemala's efforts to obtain fighter craft it has been pleasing here to note from recent telegrams[8] exchanged between the Department and our Embassy in London that the British Government is not inclined to sell planes to Guatemala. These telegrams have been repeated to Guatemala for your information so you are aware of this aspect of the matter.

We will keep you further posted on this subject and should it be necessary formally to ask the Embassy's opinion we shall do so. As I have said previously, however, we hope that MID will be able to handle the whole thing on technical grounds.[9]

Sincerely yours, EDWARD W. CLARK

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[4] For text of the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948, see TIAS No. 1838, or 62 Stat. (pt. 2) 1681.

[5] Charles D. Martin, Munitions Division, Office of Security and Consular Affairs.

[6] In the referenced memorandum of telephone conversation by Mr. Siracusa, not printed, Mr. Martin was noted to have stated that export licenses for the sale abroad of aircraft could be denied if the seller was unable to provide proper serial numbers, or if it was determined that the aircraft in question had been sold with a "scrap warranty". (714.5622/8–1952)

[7] Col. Felipe Antonio Giron, Chief, Guatemalan Air Force.

[8] Not identified.

[9] Department of State files indicate that no F–51 fighter planes were sold to the Arbenz government.

611.14/9-2552

Memorandum of Conversation, by the Ambassador in Guatemala (Schoenfeld)

CONFIDENTIAL GUATEMALA CITY, September 25, 1952.

Participants: His Excellency Señor Jacobo Arbenz Guzmán,
Constitutional President of the Republic of
Guatemala, and
Mr. Rudolf E. Schoenfeld, American Ambassador.

After discussing the OFAR and Rubber Agreements[1] with President Arbenz, I inquired whether he had any messages he wished me to convey to Washington.[2]

President Arbenz said he was eager to complete the construction of the Guatemalan Section of the Pan American Highway. He hoped that when I was in Washington I would do what I could to further that project. He expressed the opinion that the road was not only desirable for Guatemala but also for the unity of the hemisphere.

I told him I had no doubt that the American authorities desire to complete the Highway as early as practicable. As regarded the Guatemalan Section, three practical considerations were involved: (1) a covering agreement; (2) a Congressional appropriation; and (3) priorities in relation to available funds.

As he knew, there had been difficulty about a US-Guatemalan Agreement. Guatemala had had reservations about accepting certain of the standard specifications. President Arbenz said he was confident an agreement could be arrived at.

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[1] Reference is to the agreements relating to the establishment in Guatemala of agricultural and rubber research programs by the Department of Agriculture. Through the Department of Agriculture's Office of Foreign Agricultural Relations (OFAR), the United States maintained the Guatemalan Instituto Agropecuario Nacional which engaged in agricultural research and experimentation. The program was established pursuant to a memorandum of understanding and an exchange of notes signed at Guatemala City, July 15, 1944, supplemented and amended by a memorandum of understanding signed at Guatemala City, Mar. 10, 1945; for text of the agreement, see 58 Stat. (pt. 2) 1429 and 59 Stat. (pt. 2) 1471. The Guatemalan Government terminated the agreement on Aug. 4, 1950. The rubber research program was established in June 1941 through an informal letter of agreement which expired on June 30, 1951. Although both programs continued to operate without agreements, the negotiation of new agreements for existing cooperative programs was required under the provisions of the Mutual Security Act of 1951. In despatch 601, from Guatemala City, dated Jan. 12, 1953, not printed, Ambassador Schoenfeld reported on the status of negotiations for new agreements (714.5 MSP/1-1253). Additional pertinent documentation is in files 814.00 TA and 814.20 for the years 1953 and 1954.

[2] Ambassador Schoenfeld was in Washington for consultations at the Department of State from late September until early December; he returned to Guatemala on Dec. 4.

As regarded (2), the U.S. Congress was not in session at this time. It would not convene until 1953. After it met it was still difficult to forecast when it would get round to making such an appropriation.

I went on to say that I thought in frankness I ought to add that public opinion also had an influence on the matter. As he knew, American public opinion with regard to Guatemala left much to be desired. The U.S. Congress was very sensitive to public opinion. It was a real factor.

President Arbenz said he thought the American press had painted a false picture of Guatemala. It gave the impression that the Guatemalan Government was Communist. As I knew, it was not Communist.

I said I doubted whether people in the United States regarded the Guatemalan Government as a Communist Government. But they did feel that the Communists were unduly influential. They saw Communists holding key positions in various agencies and institutions and many evidences of Communist activity. They concluded that this denoted a serious degree of Communist infiltration in the country and a tolerance for it.

I thought it a mistake to think this was merely an idea of the press. For example, Mr. Serafino Romualdi, an official of the American Federation of Labor, had publicly stated a few days ago that Communism had been losing ground throughout Latin America except in Guatemala. This came from an independent labor leader.

President Arbenz said that the Guatemalan people had had only a short experience with democracy. They had emerged only a few years ago from a long series of dictatorships. They were finding their way. As a practical matter, it had been the local experience that when attempts were made to suppress any political movement, it tended to grow. I said I recognized the risks of mere suppression. The art of governing, it seemed to me, consisted in finding means of coping with disruptive elements.

I knew it was claimed that there were few Communists in Guatemala. As a matter of fact, Communists were usually a minority everywhere. But the Communists had made a study of the key positions and always directed their efforts toward getting control of them. Their influence was consequently often far out of proportion to their numbers. Moreover, from my own experience, I knew how dangerous it was to underestimate them.

I went on to say that I was aware of the natural sensitivity to any interference in any country's internal affairs. The problem of Communism in Guatemala was of course an internal problem. It was his problem. But it also had an international aspect.

Today at luncheon Dr. Noriega Morales[3] (President of the Bank of Guatemala) and I were discussing the problem. He had mentioned the great sensitivity here about outside interference. I told him the United States was a strong partisan of every country's running its own affairs. It strongly favored the principle of "self-determination". Its quarrel with the Communist movement was precisely that it sought to use local Communists in the interests of an alien power. The U.S. however also had an equally pronounced sensitivity, a sensitivity to international Communism. As he knew, it was making great expenditures of blood and treasure so that other countries could be free to live their own lives.

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[3] Manuel Noriega Morales.

President Arbenz smilingly assented but expressed doubts as to the accuracy of the estimate of Communism in Guatemala. I went on to say that there was a feeling in the United States that the Guatemalan authorities, perhaps as a result of less direct experience with Communism, tended to underestimate the danger. I also thought it was desirable not to overlook the factor which public opinion abroad represented, even if he doubted its accuracy. Sometimes it was necessary to bear in mind La Rochefoucald's maxim that the appearance of truth sometimes did more harm than truth itself.

President Arbenz was patently interested and attentive but gave no hint that he planned to take any action.

When I took my leave, he wished me a happy trip and said he would look forward to seeing me on my return.

RUDOLF E. SCHOENFELD

714.00/10-352

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Secretary of State[1]

TOP SECRET [WASHINGTON,] October 3, 1952.

Subject: Possible Military Action Against Guatemala

ARA attaches importance to the information which it has received through official foreign government channels concerning a military plan directed against Guatemala in which several of its neighboring states would be involved. In order that you might be apprised of this plan in the event the subject is raised while you are attending the UN General Assembly,[2] your attention is invited to the following:

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[1] Concurred in by Special Assistant to the Deputy Under Secretary of State Nolting, Deputy Director of the Office of Regional American Affairs Jamison, Director of the Office of Middle American Affairs Rubottom, and Director of the Office of South American Affairs Atwood; the memorandum was initialed by Secretary Acheson.

[2] Reference is to the Seventh Session of the General Assembly, which opened on Oct. 4, 1952.

1. President Somoza of Nicaragua apparently has gained the impression, however mistakenly, that a military venture directed at the overthrow of the present Guatemalan Government would have the blessing of the United States. Tab A is a memorandum[3] referring to several conversations with Brigadier General Mara,[4] Assistant Military Aide to President Truman, indicating that he may have led President Somoza to that conclusion.

2. In August Ambassador Thomen of the Dominican Republic told Assistant Secretary Miller that President Somoza, during his stay in Ciudad Trujillo for the Presidential inauguration,[5] stated to Generalissimo Trujillo that "understandings" had been arrived at between himself and President Truman in Washington with regard to anti-communist activities in the Caribbean and particularly in Guatemala. Tab B is a memorandum[6] of Mr. Miller's conversation with Ambassador Thomen.

3. Ambassador Sevilla Sacasa of Nicaragua last week called on Messrs. Miller and Mann to relate in some detail a plan whereby Nicaragua, with the support of several of its neighbors, as well as the Dominican Republic, Colombia and Venezuela, would take indirect military action against Guatemala which they considered to be a threat because of communist influence in that Government. Tabs C and D are memoranda[7] of Ambassador Sevilla Sacasa's conversations with Messrs. Miller and Mann, respectively.

4. Concomitant with the Nicaraguan approach to the Department, Ambassador Zuleta Angel of Colombia told Ambassadors Warren and Beaulac in Caracas and Habana, respectively, what he learned during a quick trip made by him through Central America and the Caribbean area, ostensibly for trade promotion, but actually to discuss the communist threat in Guatemala and Costa Rica. Tab E is a copy of Ambassador Warren's telegram[8] relating what he learned from Ambassador Zuleta, and Tab F is Ambassador Beaulac's report[9] of his conversation with Ambassador Zuleta

5. From these official sources, it has been adduced that: (1) A military plan against Guatemala has already been formulated; (2) only a leader is required to put the plan in action; (3) it is hoped to carry out

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[3] Dated July 21, 1952, not printed.

[4] Neil Mara.

[5] Reference is to the inauguration of Héctor Bienvenista Trujillo Molina, who was elected unopposed as President of the Dominican Republic on May 16, 1952; he succeeded his brother, Generalissimo Rafael Leonidas Trujillo Molina.

[6] Dated Sept. 11, 1952, not printed.

[7] Dated Sept. 26 and 29, respectively, neither printed.

[8] Telegram 122, from Caracas, dated Sept. 21, 1952, not printed; a copy is also in file 713.00/9–2152.

[9] The report under reference, dated Sept. 16, 1952, is not printed.

the plan this year, and (4) all elements concerned would like to have a "green light" from the U.S. and tangible support in arms.

6. Both Colombia and Venezuela fear Betancourt[10] (former Accion Democratica leader in Venezuela) who presently lives in exile in San Jose, Costa Rica, more than they do Guatemala. President Somoza of Nicaragua is also fearful of developments in neighboring Costa Rica where its leftist liberal leader, Figueres, is now the leading Presidential candidate for the elections scheduled next year.

Messrs. Miller and Mann, on separate occasions, stated as clearly as possible to Ambassador Sevilla Sacasa that the United States could never condone military intervention on the part of an American State against one of its neighbors, pointing out that non-intervention was one of the very keystones of the Inter-American system and that there are treaty commitments against such action.[11] The Ambassador was reminded that the United States is fighting with its UN allies in Korea for the non-aggression principle. The Ambassador was told, however, that the United States has been concerned with the communist influence in the Guatemalan Government and that it might be more appropriate to approach that problem through ODECA (Organization of Central American States) or, if that were not possible, through the regularly established procedures of the OAS, if practicable.

Mr. Miller was expected to make the same points clear to Ambassador Zuleta whom he expected to see in Panama this week during the inauguration ceremonies for President Remon.[12] Mr. Miller also was expected to see President Somoza's son[13] in Panama.

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[10] Rómulo Betancourt.

[11] In a memorandum of a conversation at the Department of State between Mr. Siracusa, Mr. Clark, and Col. Roberto Barrios Peña, a retired Guatemalan army officer and opponent of President Arbenz, dated May 27, 1952, Colonel Peña is reported in part to have forecast an upheaval in Guatemala against the Arbenz government and to have inquired what the United States would do when it occurred. The memorandum, by Mr. Siracusa, reads in part as follows: "he was informed that the United States could only view possible internal struggles in Guatemala as purely domestic issues involving Guatemala alone and that it, therefore, would maintain, in such events, its traditional policy of non-interference and non-intervention." (714.00/5–2752)

[12] José Antonio Remón was elected President of Panama on May 11, 1952, and installed in office on Oct. 1.

[13] Anastasio Somoza Debayle.

611.14/10–652

Memorandum of Conversation, by the Acting Officer in Charge of Central America and Panama Affairs (Clark)

RESTRICTED [WASHINGTON,] October 6, 1952.

Subject: Courtesy Call of New Guatemalan Ambassador

Participants: The Ambassador of Guatemala to the United States,
Señor Don Guillermo Toriello Garrido
ARA—Mr. Miller
MID—Mr. Clark

Ambassador Toriello paid his first courtesy call on Mr. Miller this afternoon. He expressed his great pleasure at having the honor to represent his Government in Washington and said that he looked forward to his mission with great anticipation in the sincere hope that his efforts would strengthen further the close bonds of friendship which already existed between the United States and Guatemala. Mr. Miller responded by welcoming the Ambassador to Washington and assuring him that he and other officials of the Department were here to assist him in every possible way during his stay here as Ambassador.

Ambassador Toriello then brought up the matter of cooperation between Guatemala and the United States in the construction of the Inter-American Highway. He reviewed briefly his conversations[1] on this subject with Mr. Siracusa and with Mr. Clark and stated, as he had to the latter two officials, that his Government desired to conclude a new agreement which would permit work to go forward on the Highway. President Arbenz was especially interested and desirous of resuming the cooperative effort on this project. He said that there was one small change, however, that he would like to propose in the wording of one of the provisions in the draft of a proposed note from the Guatemalan Embassy to the Department of State and he had taken the liberty of bringing with him a draft[2] of the new language which he desired to propose. The Ambassador said that he hoped he could leave the draft on a strictly informal basis and that the Department would give consideration to it. He explained that the new wording would not change the substance of the provision in question (relating to free transit of U.S. Government vehicles) but would facilitate things considerably for the Guatemalan Government in that the new wording would obviate the necessity of the exchange of notes to be submitted to the Guatemalan Congress for ratification. In concluding his overture on the Inter-American Highway, Ambassador Toriello mentioned that he had broached the subject of the Highway in his conversation with President Truman at the time of presenting his credentials.[3] The President had stated, he said, that the United States Government would cooperate with Guatemala in every way on this meritorious project.

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[1] Memoranda of these conversations, by Mr. Siracusa, dated Sept. 11, 1952, and by Mr. Clark, dated Sept. 30, 1952, respectively, are attached to 611.14/10–352; they are not printed.

[2] Not printed.

Mr. Miller responded by saying that the Department would be glad to give consideration to Guatemala's desire to negotiate a Highway agreement[4] and to any changes in the note that the Guatemalans would like to propose. He went on to emphasize to the Ambassador that the completion of an agreement did not necessarily mean that funds would be available for work since at the present time all available funds were allocated for work elsewhere than Guatemala and it depended on Congress whether new funds would be appropriated. He explained that we had requested and received enabling legislation from the last Congress but it was now necessary to request Congress to appropriate funds under the enabling legislation. Congress would probably not meet again until after the first of next year. In addition, assuming that Congress would appropriate new funds, there would then be the question of deciding where the money should best be spent, taking into consideration the entire length of the Highway. This was a matter of joint decision by the Department and the Bureau of Public Roads. Ambassador Toriello said that he understood this situation clearly.

Ambassador Toriello then brought up the matter of the difficulties encountered by the Guatemalan Government in endeavoring to obtain roadbuilding equipment for the Atlantic Highway. He said that some machinery was available, but especially in the category of heavy tractors they had only been able to obtain second-hand reconstructed tractors at exorbitant prices. He said that these heavy tractors and certain other heavy equipment were the key to getting ahead with the work. He concluded by expressing the hope that the Department of State could lend its good offices to assisting the Guatemalan Government in obtaining the needed equipment.

Mr. Miller responded by explaining the system of defense priorities made necessary by the defense effort. He said that the OIT had primary jurisdiction in this field and that it was at all times hard pressed to meet the heavy demands of the military and priority civilian needs related to the defense effort. Mr. Miller pointed out that just at the time the general supply situation seemed to be improving the steel strike occurred with resultant setback to the industrial output of the country. Mr. Miller said, however, that the Department would be glad to look into the matter further with the OIT and see what might be done.

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[3] Ambassador Toriello presented his credentials to President Truman on Sept. 24, 1952; the text of the Ambassador's remarks and of the President's reply is contained in Department of State press release 751, dated Sept. 24.

[4] In a memorandum to Assistant Secretary Miller, dated Oct. 3, 1952, Mr. Clark stated that MID recommended that an effort be made to conclude a basic highway agreement with Guatemala, because this would provide an opportunity for the United States to obtain certain commitments from Guatemala required by the Inter-American Highway Act (Public Law 375), approved Dec. 26, 1941; for text, see 55 Stat. 860. However, continued Mr. Clark, "our policy of withholding funds for actual work in Guatemala should remain unchanged until such time as there are fundamental changes in the internal situation in Guatemala." (611.14/10–352)

Before he departed, Ambassador Toriello left with Mr. Miller for study and consideration by the Department a draft of the proposed change in wording to which he had previously referred.

414.119/10–1452

Memorandum of Conversation, by the Acting Officer in Charge of Central America and Panama Affairs (Clark)

SECRET [WASHINGTON,] October 14, 1952.

Subject: Export Control Policy Toward Guatemala

Participants:
Rudolf E. Schoenfeld, Ambassador to Guatemala
AR —Mr. David Clark
MID—Mr. Neal [1]
Mr. Edward Clark

Department of Commerce
Mr. George Wythe
Mr. Bernard Cahill [2]
Mr. William Rafferty
Mr. Brooks Ryno
Mr. John Shepard [3]

Mr. Edward Clark said that the meeting had been called to review the situation as respects our current export control policy toward Guatemala. He noted that the Department of Commerce had recently raised the question of whether it was advisable to continue the present policy in view of changing circumstances in the supply situation and recalled that in informal discussions between officials of the Department of State and the Department of Commerce it had been agreed to postpone any final decision pending the opportunity to discuss the matter with Ambassador Schoenfeld. Ambassador Schoenfeld had been advised informally before he had left Guatemala for Washington of the views of the Department of Commerce in this regard in order to enable him to have the opportunity of reviewing the matter with his staff prior to discussion in the Department.

Speaking for the Department of Commerce, Mr. Wythe outlined Commerce's position substantially as follows. The supply situation in general was rapidly improving as a result of which there were less and less items over which the Department of Commerce could appropriately exercise licensing control. In view of this easing supply situation it was becoming more and more difficult to turn down or even delay the issuance of export licenses. The pressure from U.S. exporters was mounting and, since they were fully informed as to the supply situation, it was impossible to deny or delay licensing without openly admitting that we were engaging in a restrictive policy as regards exports to Guatemala. Finally, U.S. exporters were complaining that competition from Europe was increasing rapidly, thus threatening U.S. markets in Guatemala and elsewhere in Latin America.

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[1] Jack D. Neal, Deputy Director, Office of Middle American Affairs.

[2] Bernard J. Cahill, Assistant for Foreign Requirements, American Republics Division, Office of International Trade, Bureau of Foreign and Domestic Commerce.

[3] Program Officer, Strategic Controls Division, Office of International Trade, Bureau of Foreign and Domestic Commerce.

In view of the supply situation and pressure from U.S. exporters there were now few items over which any effective control could be exercised by OIT. The policy of refraining from granting priority assistance could, of course, be continued and some pressure could be brought in the case of materials under quantitative quota restriction. In this category were such commodities as steel, copper and copper sulphate and sulphur. However, in view of the limited control that OIT could now exercise over exports to Guatemala, the Department of Commerce wondered whether it was worthwhile to continue the present policy.

Ambassador Schoenfeld stated that in his judgment the present policy should be continued for the time being. He said that the policy had been effective thus far. The objective had been to bring the Guatemalans to a realization that they were dependent upon the United States and that if they expected assistance or consideration from the United States it behooved them to adjust their actions vis-à-vis the United States accordingly. The Guatemalans were now aware of this, he thought, and to illustrate this he pointed to the fact that President Arbenz had specifically requested him to use his good offices to assist the Guatemalans in obtaining road building equipment for the Atlantic Highway and that Ambassador Toriello in his call on President Truman[4] and later on Mr. Miller[5] had made a similar request of these two officials. There were now, he said, certain beginning signs that the Guatemalan Government might be preparing to make some adjustments in its policies as they affected the U.S. Our export policy had played an important part in bringing this situation about and could continue, he thought, to influence it in the right direction.

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[4] Apparent reference to the occasion when Ambassador Toriello presented his credentials; no other memorandum of a conversation between President Truman and the Ambassador during late September or early October was found in Department of State files.

[5] Apparent reference to Ambassador Toriello's courtesy call on Assistant Secretary Miller on Oct. 6; the memorandum of their conversation is printed *supra*.

The Ambassador said that he understood the difficult position Commerce found itself in, especially from the point of view of pressure from U.S. exporters, and said that of course careful attention should be paid to the trade situation to make sure that our policies did not result in a loss of the Guatemalan market for U.S. business through competition from Europe or elsewhere. However, he thought it would be advisable and desirable for certain political reasons, as well as for the effect it is producing on the thinking of Guatemalan officials, for this Government to continue our present policy even though our area of effectiveness was being sharply reduced by the supply situation.

The question was raised as to whether exceptions should be made in our policy in the case of materials over which there were still quantitative quota restrictions to accommodate U.S. companies such as the United Fruit Company. Specifically, it was stated that the United Fruit Company had requested an increased amount over and above the present quota level of copper sulphate used for spraying banana trees. Ambassador Schoenfeld expressed the view that our policy should not be implemented in such a way as to penalize the operations of U.S. companies. This view met with general concurrence.

After some further discussion it was agreed that the present policy of controls over exports to Guatemala, in so far as the supply situation permitted, should be continued. Specifically, it was agreed that 1) no priority assistance would be granted to Guatemala under prevailing circumstances; 2) quotas on materials under quantitative quota restrictions would continue to be cut back; and 3) as regards the export of materials not under quantitative restrictions the Department of Commerce would continue to consult the Department of State and the Embassy whenever there were any unusual items which might provide leverage. In particular, all applications for export to the Guatemalan Government or agencies thereof would be subjected to special scrutiny and brought to the attention of the Department and the Embassy.

Miller files, lot 53 D 26, "Guatemala"

Memorandum of Conversation, by the Acting Officer in Charge of Central America and Panama Affairs (Clark)

CONFIDENTIAL [WASHINGTON,] November 12, 1952.

Subject: U.S. Policy Toward Guatemala, Especially as it Relates to a Decision Affecting the Negotiation of an Inter-American Highway Agreement

Participants: ARA—Mr. Miller
Mr. Mann
MID—Mr. Rubottom
Mr. Clark
Ambassador Rudolf Schoenfeld

Reference is made to the memorandum of November 12, 1952[1] from Mr. Rubottom to Mr. Miller and Mr. Mann which reviewed recent developments in U.S. relations with Guatemala and pointed up the need to give serious consideration to whether or not we should make adjustments at this time in our policy toward that country. Various alternatives were suggested and the relative advantages and disadvantages of each were set forth. It was pointed out that the immediate problem facing us which made a policy decision imperative was that of the Guatemalan desire to conclude an Inter-American Highway Agreement.

The memorandum referred to was read by those present. After some discussion it was agreed that the time was inappropriate to make a final decision on general policy because of the impending changeover in Administration. Such a decision should more properly be left for the incoming Administration.

With regard to the immediate problem of the Guatemalan desire to conclude an Inter-American Highway Agreement, it was decided that the Department should take the position that since there were no funds immediately available for work and since the attitude of the new Congress toward the appropriation of new funds for the Inter-American Highway could not be predicted, the Department considered that it was unwise to sign an Agreement until it was clear what attitude the new Administration would assume toward the Highway project.[2] It was agreed that the Guatemalan Ambassador should be so informed at an appropriate opportunity. In the meantime negotiations on a technical level involving a Guatemalan proposal to change the wording of one of the provisions of the agreement could continue. It was agreed that the Department should continue to take the position in this regard that it preferred not to change the original language of the provision in question.

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[1] Not found in Department of State files.

[2] In a memorandum to Mr. Rubottom and Mr. Clark, dated Nov. 17, 1952, Assistant Secretary Miller stated that the best course to follow in connection with a highway agreement with Guatemala was to defer any major decision until after the new administration took office in order not to prejudice the situation, and that our general policy should be "to avoid taking decisions that constitute a deviation from previous lines of approach." (Miller files, lot 53 D 26, "Guatemala")

611.14/11-1752

Memorandum of Conversation, by the Secretary of State[1]

CONFIDENTIAL [NEW YORK,] November 17, 1952.[2]

Subject: U.S.-Guatemalan Relations

Participants: Ambassador Guillermo Toriello, Guatemalan Delegation
The Secretary

Ambassador Toriello of Guatemala called on me at his request. He said that he wished to speak with me alone and accordingly Mr. Wells withdrew.

The Ambassador then said that he had undertaken his present mission because of his great admiration for the US and his distress that relations between his country and ours were not good. He had been authorized by the President to do all within his power to change the existing situation and restore friendly and cordial relations. He also felt that I was a person who understood the necessity for good relations in the hemisphere and that he could count upon my personal good will. He therefore wished to mention to me a series of things which led him to believe that something was wrong between our countries and to ask what he could do to put it right. He mentioned the Highway Agreement which he was most anxious to conclude before the new Congress met so that everything would be in readiness for the appropriation procedure. However, although they had accepted almost all the suggestions made by the Department, there was one matter on which they had been turned down, though it seemed to be a very trival one. He attributed significance to this rejection. The point at issue was whether American Government vehicles should be exempted from tax, or whether the agreement would be sufficient if they would be treated exactly the same as Guatemalan vehicles, which he said were not at present subject to tax and undoubtedly never would be. The reason for their desire to use this language was that our language would have to go to the Congress, whereas their language would not. He thought therefore that we were turning this down for broader reasons than the language concerned.

He also stated that when the members of the UN Delegation from Guatemala landed in New Orleans, although they were bearers of diplomatic passports, they were put at the end of the line and were not dealt with until all Americans had been put through. He had explained to his delegation that this was merely the ignorance of the local official and that he did not attribute any studied attitude on the part of this Government to be responsible for it. However, it worried him as it might, in his mind, be an indication of our disapproval.

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[1] Secretary Acheson was in New York as Chairman of the U.S. Delegation to the Seventh Session of the General Assembly of the United Nations, which opened on Oct. 14, 1952.

[2] Information on the source text indicates that this memorandum was typed on Nov. 19.

He also mentioned what he called the violent propaganda against his country which he saw in all American magazines and newspapers and which he thought was activated by a special interest in our country.

In short, he wanted to know what was wrong and what he could do to put it right.

I told him that I knew nothing about the incident in New Orleans and was quite sure that his interpretation was the correct one, but that I would look into it because clearly bearers of diplomatic passports were entitled to all courtesies in our country. Insofar as the Highway Agreement was concerned, I pointed out the disadvantage of treating different governments differently in agreements on this point, and the trouble which would arise. However, I said I would inquire into the matter and discuss it with the Departmental officers concerned.

In regard to the last matter he mentioned, I told him that I thought we should discuss the matter frankly and that there was a clear difference of view. He thought that the articles about Guatemala were maliciously inspired and were untrue. I thought that these articles were a reflection of a situation which existed in Guatemala; whether they were factual or not was beyond my knowledge, but I was quite sure that they were not inspired for propaganda or malicious purposes. The question therefore was what was the situation in Guatemala and what was the Government doing about it. There was trouble of some sort. I should like to hear from him whether he thought that was correct and if so, what the Government was doing about it. He told me that Mr. Wells could tell me about his own background and his family's background, that he was inalterably opposed to Communism in any form whatever; and that he would leave the Government the moment the Government did not believe that it shared the American view. He added that he did share the same view. He spoke about the experience of his youth growing up under a dictatorship and said that we who were accustomed to liberty did not know how fragile it was in Central America and that while his Government could easily become a dictatorship, it was determined not to do so. Therefore, it was not approaching the communist question from the point of view of suppression because that would easily lead to dictatorship. The Government, by a reform policy, was attempting to remove the evils which gave communism a base and, by careful work in the trade unions and in agricultural groups, it was attempting to discredit the communists so that they would be removed from positions by those who had put them where they were. He believed that the dangerous communists were the imported ones, who were spreading propaganda to many of what he called the "local boys". He said that they were very young, uninformed and often misled, but he did not believe that they were indoctrinated communists. However, they were being carefully watched and he said that the circle was being drawn closer and closer around them and that they would not be permitted to exercise any dangerous influence. After some further talk along this line, I said that I wished to discuss the matter with Ambassador Schoenfeld whom I hoped was still in this country and that possibly next week Ambassador Toriello, Ambassador Schoenfeld and I might go into this whole matter and compare notes in the frankest possible way as to what the Government in Guatemala could do or what it was now doing.

He grasped this suggestion with enthusiasm and I told him Mr. Wells would be in touch with him on all the questions he had raised with me.

611.14/12–852

Memorandum of Conversation, by Milton K. Wells, Adviser to the United States Delegation to the United Nations

CONFIDENTIAL [NEW YORK,] December 1, 1952.[1]

Subject: Talk with Guatemalan Ambassador Guillermo Toriello Regarding Matters Affecting United States-Guatemalan Relations

Participants: The Secretary
Amb. Guillermo Toriello—Guatemalan Delegation
Amb. Rudolph E. Schoenfeld—United States Ambassador to Guatemala
Milton K. Wells—United States Delegation

Taking advantage of Amb. Schoenfeld's presence in the United States, the meeting was arranged at the Secretary's suggestion for the purpose of following up his talk of November 17, with Amb. Toriello[2] in regard to the situation in Guatemala adversely affecting United States relations with that country. Amb. Toriello was received in the Secretary's suite at the Waldorf Astoria. The conversation lasted about one and one quarter hours.

Amb. Toriello devoted most of his part of the conversation toward a general justification of Guatemala's attitude toward Communist influences in that country. Despite frequent efforts of the Secretary and Amb. Schoenfeld to steer the conversation into more specific and more constructive channels, Toriello kept adverting to generalities. With considerable repetition, he described his Government's basic policy as one conditioned by a sincere desire to maintain democratic procedures and to avoid dictatorship. His Government believes that the best way to combat Communism is to improve the maladjusted social and economic conditions which produce unrest among the under-privileged classes. This approach, he argued, is fraught with less danger than a repressive policy which would drive Communism underground. He belittled the power and influence of the Communist leaders. He said their activities are known to the Government and that they would be placed under immediate restraint should war occur. He personally shared the belief that they can be controlled best in the open and that in any case they are discrediting themselves with the rank and file. Regarding the labor unions, he did not believe the workers shared the ideological views of their leaders and were interested only in better pay and better living standards.

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[1] Information on the source text indicates that this memorandum was typed on Dec. 2.

[2] Secretary Acheson's memorandum of conversation with Ambassador Toriello, dated Nov. 17, 1952, is printed *supra*.

During the course of the conversation, however, Amb. Toriello did make a number of interesting comments on several specific situations as recorded in the following paragraphs.

Toriello praised the personality and qualifications of the new Foreign Minister, Dr. Raul Osegueda, whose friendly attitude and sincere desire to work for the best possible relations with the United States would facilitate his own mission. This gave him much satisfaction since he could now confidently count upon the support of his Foreign Office as well as President Arbenz to this end. Osegueda had asked the Ambassador to convey his respects and greetings to the Secretary, and to Ambassador Schoenfeld whom he looked forward to seeing in Guatemala. The Foreign Minister had expressed a desire to attend the forthcoming inaugural ceremonies if invitations are to be extended to other governments to be represented by special delegations. The Secretary stated he would inquire into our policy in this regard and advise the Ambassador as to whether we plan to invite special delegations. Both the Secretary and Ambassador Schoenfeld reciprocated the Foreign Minister's greetings.

The conversation turned to the pro-Communist slant of the official newspaper *Diario de Centro America*, which, as Amb. Schoenfeld commented, had an unfortunate effect upon public opinion in the United States. Toriello stated he could assure us of a future change in that journal's policy. He explained that the *Diario de Centro America* includes two sections, the gazette portion which prints official decrees and announcements, and the news or informative section. The problem may be solved, he said, by eliminating the informative section, converting the *Diario* into a truly official gazette.

Amb. Schoenfeld inquired whether any steps were contemplated to remedy a similar situation with respect to the Government broadcasting station TGW. Toriello assured him that the policy of TGW would also be changed. One explanation of the frequent attacks on the

United States heard in the past over this Government station, he apologized, was that unfriendly elements abused the radio time which they had rented from TGW for unofficial programs. He described how he himself once had taken up the telephone to stop a TGW program . . . slandering the Government of neighboring Honduras.

Another factor which influenced the United States press and public opinion was the activity of pro-Communists in the Guatemalan Congress, Amb. Schoenfeld commented, noting in this connection that several known Communists are likely to be elected on the coalition ticket supporting the Government in the forthcoming Congressional elections. Amb. Schoenfeld also remarked that some of these individuals had recently visited behind the Iron Curtain. Toriello brushed aside as not really important the visits behind the Iron Curtain of such Guatemalans as Robert Alvarado Fuentes (former President of Congress), José Manuel Fortuny,[3] and Victor Manuel Gutierrez.[4] He professed not to believe that these and other Guatemalans were seriously indoctrinated by such visits, and by implication seemed to argue that their Marxian ideas were geared simply to Guatemalan social and economic considerations. In any case, he did not discuss the obvious international implication of their activities or their presence at Soviet-sponsored "peace" conferences.

. . . He predicted that Fortuny might be defeated; not because the Government opposed him, but for the same reasons that Humberto Gonzalez Suarez failed to become Mayor of Guatemala City—that is, because the relatively intelligent electorate in the city and the influence of the Church brought about his defeat at the polls.

Once or twice during the conversation, Toriello urged us not to be taken in by the denunciations of the Government by the opposition. By innuendo, he seemed to allege that our estimate of the situation had been unduly influenced by wild stories and rumors circulated by the subversive opposition, disguised and cloaked by anti-communism. The anti-communist movement in Guatemala is dangerous, he argued, since it does conveniently serve as a cloak for the irreconcilable opposition. Alluding again to the alleged "grand conspiracy against Guatemala" with which Guatemalan spokesmen so frequently charge the United States press and "foreign interests" Toriello said the situation was aggravated by the fact that Guatemala does not have diplomatic relations with Franco Spain, Peru, Venezuela and others. These countries, he said, add their bit to the campaign against Guatemala. In this connection, he commented that he hoped that Guatemala would establish normal relations with Venezuela before the Tenth Conference of Inter-American States meets in Caracas.

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[3] José Manuel Fortuny Arana.

[4] Víctor Manuel Gutiérrez Garbin.

Amb. Toriello did not bring up the question of the proposed Inter-American Highway Agreement.[5]

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[5] In a letter to Mr. Clark, dated Dec. 3, 1952, not printed, Mr. Wells noted a few minor omissions from this memorandum of conversation (714.00/12-352)

714.00/12-1252

Memorandum by the Director of Central Intelligence (Smith) to the Under Secretary of State (Bruce)

TOP SECRET WASHINGTON, 12 December 1952.

Subject: Central America—Guatemala

1. The following recent reports concerning the Central American situation are submitted for your information and consideration. The sources of these reports have proved reliable before and they conform to the pattern established by other sources. However some of the information cannot, for obvious reasons, be checked satisfactorily.

a. The Guatemalan Government has recently stepped-up substantially its support of Communist and anti-American activities in other Central American countries as follows:

Honduras
It is reliably reported that in northern Honduras there are more than 40 Communist cells in existence, organized under Guatemalan sponsorship.

. . . .

Costa Rica
In September 1952 the Guatemalan Government gave Presidential Candidate Figueres of Costa Rica $300,000 cash, according to the same informant.

b. The Guatemalan Government has been purchasing arms which are not going to the Guatemalan army but which it is believed are being distributed to the secret forces described below.

c. Deputies to the Guatemalan National Congress are to be elected 16–18 January. Indications are that communists will dominate the Congress after the elections because of their infiltration of all legal political parties. The new Deputies who take office in March will make appointments to all judgeships in the Supreme and lower courts of the country.

d. The principal revolutionary group has been building its organization since March 1952. We are informed that this group has decided to strike not later than 1 February 1953 with whatever means they have at their disposal. They are convinced that if the government of

Guatemala succeeds in its present plan to control both Congress and the courts the chances of eventually overthrowing that government will be very considerably reduced.

e. The government of Guatemala is reacting defensively to the threat of revolution. It expects any invasion to start from across the Salvadoran frontier, and believes its best chances for defense are to fall back on Quetzaltenango. Because the government no longer fully trusts the Army, it has begun the development of a secret force of 1500 non-military personnel, broken down into three separate organizations: (1) the Caribbean Legion (200) . . . ; (2) a secret Communist organization (500); (3) a group composed of Cubans and Spanish Republicans.

f. The Costa Rican elections are scheduled for July 1953. Figueres, supported by the Guatemalan Government, is reported to control 105 of the 106 employees in the Registro Civil where all voters must register. A continuance of financial support from Guatemala reinforces his already strong position. According to recent reports, Betancourt (the exiled leader of the Venezuelan Accion Democratica leftist party) was still being given shelter and support by Figueres. (OCI notes that Figueres appears to be so strong politically at this time that there is no reason to believe that withdrawal of financial support by Guatemala, or the overthrow of the Guatemalan Government, would seriously affect Figueres candidacy one way or the other.)

g. A reliable source . . . indicates that his country is so concerned with the increasing domination of communists in Guatemala and the extension of their activities to other Central American countries, that El Salvador is considering a move against Guatemala in late December or early January. We have not ascertained whether an overt move or covert support of Guatemalan anti-Communists is planned. Our source indicates that the principal restraint upon such action is doubt as to whether the US would view it with favor.

2. We have heretofore advised you of the existence of a substantial revolutionary group planning to overthrow a presently Communist infiltrated Guatemalan Government. In accordance with State Department instructions, we have given no overt or covert assistance to this group.

WALTER B. SMITH

Editorial Note

On February 26, 1953, President Arbenz signed an order issued by the Guatemalan National Agrarian Council calling for the expropriation, under provisions of the Agrarian Reform Law of June 17, 1952, of approximately 234,000 acres of United Fruit Company property near Tiquisate on the Pacific side of Guatemala, and offering the company government bonds as compensation. The company appealed the expropriation order to the Guatemalan Supreme Court, requesting an injunction against its implementation; the court denied the appeal on March 18, 1953. A translation of the text of the Agrarian Reform Law was transmitted to the Department of State under cover of despatch 1299, from Guatemala, dated June 19, 1952, not printed. (814.20/6–1952)

On March 25, 1953, Assistant Secretary of State for Inter-American Affairs Cabot handed an *aide-mémoire* concerning the expropriation, drafted by Mr. Mann and Mr. Leddy and dated March 25, to Guatemalan Ambassador Toriello at the Department of State. The *aide-mémoire* indicated that the United States Government did not consider deferred payment in the form of agrarian bonds as constituting prompt and effective compensation to the company, that the amount of compensation offered was inadequate under well-established principles of international law, and that the views of the Guatemalan Government were invited concerning the continued operation of the company in Guatemala. (814.20/3–2553)

In Guatemalan Embassy note no. 596, dated June 26, 1953 and delivered to the Department of State on that date, not printed, the Guatemalan Government set forth its position concerning the expropriation of UFCO lands. The note stated in part that the expropriated lands were unproductive and vacant and of no benefit to the company, the expropriation was an exercise of Guatemalan national sovereignty and therefore not subject to international discussion, and that full protection was afforded all foreign-owned property in Guatemala. (814.20/6–2653)

In an *aide-mémoire*, dated August 27, 1953 and handed to Ambassador Toriello on August 28, the Department of State set forth the legal basis for the UFCO's claim for compensation from the Guatemalan Government, and requested that direct negotiations concerning the issue be undertaken either between representatives of the Guatemalan Government and the company or between the two Governments. (814.20/8–2753) For text of the *aide-mémoire* and additional information, see the Department of State *Bulletin*, September 14, 1953, pages 357–360.

In an *aide-mémoire*, dated February 5, 1954 and handed to Guatemalan Chargé Alfredo Chocano at the Department of State on the same date, not printed, the Department renewed its request for direct negotiations, and suggested international arbitration as an alternate means of settlement. (814.20/2–554) Department of State files indicate that the Guatemalan Government acknowledged the Department's communications of August 27, 1953 and February 5, 1954.

On February 24, 1954, the Guatemalan Government announced final expropriation of an additional 172,532 acres of UFCO property located near Bananera on the Caribbean slope of Guatemala, again stating its intention to pay compensation in the form of long-term agrarian bonds.

On April 20, 1954, in a memorandum of the same date handed to Chargé Chocano at the Department of State, not printed, the United States presented a formal claim against the Guatemalan Government, on behalf of UFCO, for the seizure of the company's lands at Tiquisate. (814.20/4–2054) For additional information, see the Department's press release 206, dated April 20, 1954, in the Department of State *Bulletin*, May 3, 1954, pages 678–679.

611.14/3–2553

Memorandum of Conversation, by John W. Fisher[1] *of the Office of Middle American Affairs*

CONFIDENTIAL [WASHINGTON,] March 25, 1953.

Subject: Relations with Guatemala

Participants: Ambassador Guillermo Toriello Garrido of Guatemala
ARA—Mr. Cabot
MID—Mr. Fisher

Dr. Toriello said he planned to leave on Monday, March 30 for a week in Guatemala and wished to call on Mr. Cabot before departing. He referred to what he called the press campaign in the U.S. against Guatemala, and exhibited a newspaper distributed to school children called "*Our Times*" containing a reference to Guatemala which he said would give the children the impression that his country is Communist. Mr. Cabot said he was sure the paper was not an official government publication. Dr. Toriello referred to an article by a Mr. Toledano in a recent issue of the *American Mercury* which he said was so mendacious that he even thought about bringing suit on it. He then displayed a copy of Mr. Braden's[2] recent speech at Dartmouth, pointing out the reference to Mr. Chocano, his Counselor of Embassy, which charges him with having been ejected from Nicaragua for carrying Communist propaganda. Dr. Toriello said the charge was utterly false, and described the conditions under which Mr. Chocano left Nicaragua. Mr. Cabot said that Mr. Braden was not in the Government and his views were his own. He added that he was glad to hear that the charge was false.

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[1] Guatemalan desk officer.

[2] Spruille Braden, Ambassador in Argentina from May to August 1945 and Assistant Secretary of State for American Republic Affairs, 1945–1947.

Dr. Toriello brought up the matter of the Aviateca application for a permit to fly to the U.S., which he said had been delayed by the Department for a very long time. Mr. Fisher said the application was under study and that it would probably go forward to the Civil Aeronautics Board soon.

Dr. Toriello mentioned the matter of pending license applications for arms, specifically tank parts. Mr. Fisher said the application is under study, and that certain findings had to be made regarding availability, etc. Mr. Cabot said that, nevertheless, we had to be sure about the orientation of the people who were going to get the arms. He emphasized that the U.S. Government is very seriously concerned over the infiltration of Communists in the Guatemalan Government, and said that he felt all the other problems pertaining to our relations with Guatemala were subsidiary to this central issue and could be settled without undue difficulty once the matter of Communism was cleared up.

Dr. Toriello thought we overestimated the importance of Communism and restated at length, and in various ways, his theme that the charges of Communism in Guatemala were false and were made by people opposed to the social-economic reforms being made by the present Administration.

Mr. Cabot again emphasized that this Government was not desirous of impeding social-economic reform in any country, nor in giving credence to false statements about Guatemala, but that the U.S. was definitely concerned over the evident infiltration of a dangerous foreign influence into the Guatemalan Government.

Dr. Toriello replied that of his own knowledge he could state that there were no foreign Communists of importance in his country and said that his country had no diplomatic relations with any Communist state. He brought up the names of the Guatemalans, Solórzano[3] and Gutiérrez, dismissing the first as not being in the Administration, but merely the elected head of the autonomous social security institution. As for Gutiérrez, he acknowledged that he was a local Marxist and that he was an important labor leader, but said his rise was only due to the youth and inexperience of the Guatemalan labor movement, and that he would disappear in time. He mentioned his suggestion to Ambassador Schoenfeld that Guatemalan labor leaders visit the U.S. He said there was no foreign Communist influence of consequence in the Guatemalan Government, and added that if we had information of secret Communists in it, his Government would be grateful for it in order to defend itself. Mr. Cabot replied that such matters were, of course, the responsibility of the Guatemalan Government. Dr. Toriello said Guatemala's neighbors were professing alarm over Guatemalan Communism, but in reality their alarm was only that of the wealthy landowners over agrarian reform. Dr. Toriello said that he was sure that the anti-Communist campaign against Guatemala would go on as long as she maintained her reform program, even if every Communist in the country were somehow eliminated. Mr. Cabot said that he felt that it might take some time for complete confidence to be re-established between the peoples of Guatemala and the United States, but that no progress could be made in that direction at all while the key problem of Communist infiltration there remained unsolved.

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[3] Alfonso Solórzano.

Mr. Cabot said that among the subsidiary problems was that of the United Fruit Company expropriation,[4] and proceeded to give Dr. Toriello the substance of the *Aide-Mémoire*[5] relating to the subject.

Dr. Toriello said he would bring a prompt reply but added that the Government's intention was not to drive the company out of the country but to subject the company to the provisions of its laws. He gave the story of his own expropriation, concluding that payment of the declared tax valuation was just payment. He said the Agrarian Law included provisions for the rental of nationalized lands, which could be used to meet the company's needs for lands. He went on to discuss what he called the bad behavior of the company in the past, and mentioned the recent imposition by the railroad of a 15 cent per quintal tax on cargo moved from its pier at San Jose to the immediately adjacent highway terminal facilities, just as the Government finished paving the road paralleling the railroad to the capital. He said the tax was withdrawn shortly afterwards. He said the Fruit Company paid $75 per car to ship its bananas on the railroad, while Guatemalans were charged $575 per car, and that the Government therefore had to build the Atlantic Highway to provide fair competition.

Dr. Toriello asked about his note on the Inter-American Highway of last December,[6] in which his Government accepted all the conditions set down by the U.S. Government. Mr. Cabot replied that the highway was another subsidiary matter which could be settled more or less quickly once the basic question of Communist infiltration in the Government of Guatemala was resolved.

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[4] For information on this subject, see the editorial note, *supra*.

[5] Reference is to the Department of State's *aide-mémoire*, dated Mar. 25, 1953; see *ibid*.

[6] Reference is to Guatemalan Embassy note no. 1661, dated Dec. 22, 1952, not printed (820.2612/2-2252).

Dr. Toriello said that he might return to Guatemala again in order to be there during Mr. Cabot's visit between April 25 and 28.[7]

The conversation between Mr. Cabot and Dr. Toriello, which was friendly and frank, lasted a little over one hour.

Mr. Cabot handed Dr. Toriello an *Aide-Mémoire* on the subject of the expropriation of United Fruit Company properties.

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[7] Between Apr. 6 and May 3, 1953, Assistant Secretary Cabot conducted a factfinding tour through Central and South America. Documentation relating to his trip is in file 110.15 CA

INR–NIE files

National Intelligence Estimate [1]

SECRET
NIE–84

WASHINGTON, May 19, 1953.

PROBABLE DEVELOPMENTS IN GUATEMALA [2]

THE PROBLEM

To estimate the current political situation in Guatemala and probable future developments.

CONCLUSIONS

1. The current political situation in Guatemala is adverse to US interests. The Guatemalan Communists exercise a political influence far out of proportion to their small numerical strength. Their influence will probably continue to grow as long as President Arbenz remains in power.

2. Communist influence in Guatemala is based on militant advocacy of social reforms and nationalistic policies identified with the Guatemalan Revolution of 1944. It is exercised through the personal influence of individual Communists with the President and within the pro-Administration political parties, through infiltration of the bureaucracy, through control of labor organizations, and through leadership of the agrarian reform movement. The Communists' present objective is not open and direct control of Guatemala. Rather, they seek to neutralize Guatemala as an ally of the United States and to convert its Government into an effective, though indirectly controlled, instrument of Communism.

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[1] A cover sheet and dissemination notice are not printed.

[2] A note on the cover sheet reads as follows:

"The following member organizations of the Intelligence Advisory Committee participated with the Central Intelligence Agency in the preparation of this estimate: The intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff.

"The Intelligence Advisory Committee concurred in this estimate on 12 May 1953. The AEC and FBI abstained, the subject being outside of their jurisdiction."

3. President Arbenz still exercises personal control of the Administration and of the Army and the Police. It is still possible for him to break his ties with the Communists and to moderate the policies of his Administration, but it is highly unlikely that he will do so.

4. Implementation of the Agrarian Reform Law of 1952 will be the principal objective of the Arbenz Administration during 1953. It is to be expected that the large Guatemalan landholders and the United Fruit Company will be victimized in the process.

5. The implementation of Agrarian Reform has intensified a sense of insecurity which has had a depressing effect on business activity in Guatemala. However, its direct effect on agricultural production is likely to be negligible, at least for several years. As long as coffee prices hold up the general economy of Guatemala will not be vitally affected.

6. The net internal political effect of the implementation of the Agrarian Reform Law will probably be to strengthen the Arbenz Administration and to increase Communist influence and capabilities. Neither the landholders nor the Fruit Company can expect any sympathy in Guatemalan public opinion. Redistribution of their land will be used to mobilize the hitherto inert peasantry in support of the Administration.

7. The most effective opposition to the Arbenz Administration is found in Guatemala City. The urban elements which constitute this opposition are strongly anti-Communist, but they are also strongly nationalistic. In general they could not be expected to make common cause with the landholders and the Fruit Company or to welcome foreign intervention in Guatemalan internal affairs, although some of them might be disposed to accept foreign assistance in overthrowing Arbenz. There is no likelihood that this urban opposition could alter the course of the Government by political action. It could not succeed in a revolutionary attempt opposed by the Army.

8. The Army is the only organized element in Guatemala capable of rapidly and decisively altering the political situation. Although a quick change of attitude is always possible, there is no present reason to doubt the continued loyalty of the Army high command and of most of the Army to Arbenz. The Army under its present leaders could not be expected to take revolutionary action unless they became convinced that their personal security and well-being were threatened by Communist infiltration and domination of the Government, or unless the policies of the Government were to result in extreme social disorder and economic collapse.

9. So long as it remains united, the Guatemalan Army can defeat any force which the Governments of El Salvador, Honduras, and Nicaragua could deploy against it. These Governments are fearful that the trend in Guatemala will lead to Communist subversion and social

upheaval in their territories. They are probably giving serious consideration to the possibility of effecting a political change in Guatemala through clandestine support of revolutionary action there. It is highly unlikely, however, that they would or could mount an open military intervention in Guatemala.

10. Guatemala will probably continue to assist Communist subversive activities in the Caribbean area, but will probably avoid involvement in filibustering operations like those of the Caribbean Legion in 1948–1951. To counterbalance its isolation in Central America it will seek political support elsewhere, particularly in the United Nations. If actually invaded it would seek to invoke the Rio Treaty as well as the UN Charter.

11. Guatemala has frequently taken occasion to demonstrate its independence of US leadership and in general has been less cooperative than could be desired, particularly in Hemispheric affairs. Moreover, the regime has systematically been hostile toward US private economic interests in Guatemala. Detriment to Hemisphere solidarity would not deter Guatemala from any course of action suggested by its own interests.

DISCUSSION

The Arbenz Administration

12. The present political situation in Guatemala is the outgrowth of the Revolution of 1944. That Revolution was something more than a routine military coup. From it there developed a strong national movement to free Guatemala from the military dictatorship, social backwardness, and "economic colonialism" which had been the pattern of the past. These aspirations have inspired the loyalty and conformed with the self-interest of most politically conscious Guatemalans. The Arbenz Administration still derives some strength from its claim to leadership of the continuing national revolution.

13. In the name of the Revolution of 1944 the successive administrations of Arévalo (1945–1951) and Arbenz have pursued increasingly radical and nationalistic policies. Their persecution of foreign economic interests in Guatemala, especially the United Fruit Company, and their demands for the "restitution" of Belize (British Honduras) have had the support or acquiescence of almost all Guatemalans. Their promotion of labor organizations and agrarian reform has tended to neutralize political opposition by creating mass support for the present regime. Any objection to the trend of developments in Guatemala has been stigmatized as resistance to the Revolution of 1944 by "feudal" and "imperialistic" interests.

14. The toleration of Communist activity which characterized the early years of the Arévalo Administration has developed into an effective working alliance between Arbenz and the Communists. The pursuit of leftist and nationalistic policies has been greatly accelerated

under the Arbenz Administration. His first year in office was highlighted by active Government support for the formation of a national labor confederation and by a joint Labor–Government attack on the United Fruit Company. That attack failed, but the alliance of the Government with Communist-led organized labor was firmly established in the course of the struggle.

15. The point of reference for consideration of the present political tensions in Guatemala is the Agrarian Reform Law enacted in mid-1952. This Law provides for the expropriation of large tracts of unused land and their distribution to farm workers. Although presented as a long-overdue measure of social and economic reform, the Law has strong political motivation and significance. Communists and fellow-travelers played a leading part in its enactment; they honeycomb the National Agrarian Department established to administer it. The Communists have incited disorderly peasant seizures of privately owned lands. The Law is being administered in such a way as to destroy the political effectiveness of the large landholders and to mobilize the hitherto politically inert peasantry in support of the regime.

16. The recent congressional electoral campaign has further emphasized Arbenz' political alliance with the Communists. Pressure from the President's office forced some reluctant Administration supporters to accept the newly reorganized and legalized Communist Party (called the Guatemalan Labor Party, or PGT) into the Electoral Front, the pro-Administration coalition. The Electoral Front swept the country, except Guatemala City, where its ticket was decisively defeated by a strong anti-Communist vote. The over-all result of the election was a reduction of Opposition strength in Congress from eleven to five of the 56 seats. Although Communist Party representation remained at four, the Congressional membership includes several additional crypto-Communists and a majority may be considered sympathetic toward the Communist Party line so long as Arbenz favors it.

17. A further increase in political tension has resulted from a Supreme Court decision favorable to a Guatemalan landholder who had appealed for protection from arbitrary execution of the Agrarian Reform Law. At the instigation of Arbenz, the Guatemalan Congress immediately unseated the justices who favored this decision and replaced them with others more reliable from its point of view. This action provoked an intense but transitory reaction on the part of professional and other elements in Guatemala City already anti-Administration in sentiment.

18. President Arbenz has a middle-class background, as have most of his political associates. At least initially, his involvement with Revolutionary forces was probably as much a matter of simple political expediency and opportunism as of personal inclination. By now, however, he has become emotionally committed to the social and na-

tionalistic objectives of the Revolution of 1944, especially to Agrarian Reform. Although probably not himself a Communist, he has found Communist leaders among his most ardent and useful supporters and values accordingly his political alliance with them. Inasmuch as Arbenz has thus far kept personal control of the considerable powers of the Guatemalan Presidency, it is still possible for him to break with the Communists and to moderate the policies of his Administration. He has shown no inclination to do so, however. As the situation in Guatemala develops the political alternatives open to him are steadily reduced.

Communist Strength and Influence

19. The Guatemala Labor (Communist) Party is estimated to have no more than 1,000 members, of whom perhaps less than one-half are militants. The Party is in open communication with international Communism through the Communist-controlled international labor organizations (the Latin American CTAL and the world-wide WFTU) and through visits made to the Soviet Bloc by individual Communists and front group delegations.

20. The Communists have achieved their present political influence in Guatemala, not as a political party competing with others, but through personal influence with the President and through the coordinated activity with individual communists within the leftist political parties and labor unions which emerged from the Revolution of 1944. This Communist infiltration of other parties and organization has been facilitated by the coincidence of avowed Communist social and "anti-imperialist" objectives with those of the Revolution. The recent legalization of the Party and its acceptance into the pro-Administration Electoral Front has not altered its basic strategy of seeking power through infiltration rather than through open political competition. Its immediate objective is not a "People's Democracy" under open and direct Communist control, but rather to neutralize Guatemala as an ally of the United States and to convert the Government into an effective, though indirectly controlled, instrument of Communism.

21. With the assistance of the Government, Communist, and Communist-influenced labor leaders have been the most successful organizers of Guatemalan labor. Their formation of the General Confederation of Guatemalan Workers (CGTG) and Government pressure for labor unity have facilitated the extension of their control over all organized labor. In the important railway workers' and teachers' unions, however, there has been some rank-and-file opposition to association with Communism. In 1952, moreover, rank-and-file defection from Communist leadership was an important factor in breaking a major strike against the United Fruit Company. The basic weakness of Guatemalan Communist labor leadership is that it is imposed from

above through top control of the machinery of labor organization and cannot be sure of rank-and-file support in all circumstances.

22. Implementation of the Agrarian Reform Law has opened a new field of Communist organizational activity. The Communists are seeking to mobilize the hitherto inert mass of rural workers through the CGTG and the National Confederation of Guatemalan Peasants (CNCG), in which they exercise a strong influence.

23. Through their leadership in organized labor and their influence with the President and within the pro-Administration political parties, the Communists have gained many positions of influence within the Government: in Congress (where they dominate the Special Committees on Agrarian Reform and Labor Code Revision), in the National Electoral Board, the National Agrarian Department, the Institute of Social Security, the Labor Courts, the Ministry of Education, and the Presidential Secretariat of Propaganda, and in the official and pro-Administration press and radio. Their influence is extended by an indefinite number of Communist sympathizers in similar positions. At the same time, no Communist holds any position of Cabinet rank and the Communists appear to have made little or no effort as yet to gain control over the Police or the Army.

Anti-Communist Elements in Guatemala

24. Various elements in Guatemala, including many loyal adherents of the Revolution of 1944, view with increasing concern the rapid growth of Communist influence in that country. These elements, however, have shown little capacity to organize for effective counteraction. In general, each has tended to react only as its own peculiar interests were directly affected and all have been deterred by the success of Administration propaganda in stigmatizing any criticism as opposition to the principles of the Revolution of 1944 and support of "feudalism" and "foreign economic imperialism."

25. Aside from US private interests in Guatemala,* the large Guatemalan landholders have been the chief target of the Revolutionary program. During the Arévalo Administration the landholders failed in their attempts to alter the course of the Revolution. They now appear to be politically isolated and incapable of effective self-defense.

26. The Catholic hierarchy in Guatemala is implacably opposed to Communism, but the Church has been excluded from an active role in national affairs since the late Nineteenth Century. Moreover, the Church is handicapped by the meagerness of its resources, the small number of priests in proportion to population, the fact that most priests are aliens subject to deportation, and the lack of a program capable of competing with the Communist-led labor movement or with Agrarian Reform.

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*The United Fruit Company, the International Railways of Central America, and Empresas Electricas (the principal electric light and power company). [Footnote in the source text.]

27. Urban opposition to Communism (largely confined to Guatemala City) is composed of: (a) commercial and manufacturing interests; (b) certain professional groups; (c) university students; (d) moderate labor elements; and (e) the market women of Guatemala City. This urban opposition is strongly anti-Communist, but it is also strongly nationalistic. In particular, it resents the predominance of US private economic interests in Guatemalan life. So far the Arbenz Administration has treated Guatemalan urban economic interests with consideration, has supported them against foreign competition, and has made no sustained effort to break their strong political position in Guatemala City.

28. The political effectiveness of the urban opposition has been hindered by the multiplicity of its elements and by conflicts of interest among them, as well as by their continuing loyalty to the stated objectives of the Revolution of 1944. Nevertheless, the opposition won the mayoral election in Guatemala City in December 1951 and even more decisively defeated the Electoral Front there in the January 1953 congressional election. The unwillingness of urban opposition groups to be identified with the landholders will remain an obstacle to the unification of all anti-Communist elements in Guatemala.

The Position of the Army and the Police (*the Guardia Civil*)

29. The Army (6,000 men) is the only organized element in Guatemala capable of rapidly and decisively altering the political situation. The two regiments (1,600 men) stationed in the capital city are an elite force trained under the supervision of the US Army Mission and better equipped than other units of the Guatemalan Army. The *Guardia Civil* (3,500 men) neither is dispersed in small detachments—it could neither defeat an Army coup nor itself overthrow the Government without Army support. All officers in the *Guardia Civil* are Army officers.

30. Since the Revolution of 1944 the Army and the Police have refrained from active participation in politics while supporting the constitutionally established administrations of Arévalo and Arbenz. The present Army leaders owe their personal advancement to the Revolution, and particularly to Colonel Arbenz, who was a military leader in the Revolution and Minister of Defense under Arévalo before himself becoming President. There is no reason to question their personal loyalty to Arbenz. Any possible disaffection in the Army would be likely to occur at the junior officer level. Arbenz has sought to enhance morale through pay increases, additional allowances, quarters for many field grade officers, promotions every three years, duty-free commissary privileges, and appointments to desirable government positions. Especially generous treatment has been provided for the officers of the two regiments stationed at Guatemala City, while less reliable officers have been assigned to isolated posts in the hinterland. The military units outside of Guatemala City have little potential for effec-

tive revolutionary action because of their dispersion and isolation, the inferiority of their equipment and training, and the watchful supervision of trusted area commanders. The rank-and-file of the Army is conscripted and is susceptible to the same political appeals which the regime addresses to the mass of the population. There is little or no Communist penetration or influence in the Army.

International Relations

31. Guatemalan foreign policies reflect the nationalistic and "democratic" attitudes associated with the Revolution of 1944. Although they have not been systematically antagonistic toward the United States, Guatemala has frequently taken occasion to demonstrate its independence of US leadership and in general has been less cooperative than could be desired, particularly in Hemispheric affairs. Moreover, the regime has systematically been hostile toward US private economic interests in Guatemala (the United Fruit Company, the International Railways of Central America, and Empresas Electrica). In keeping with its attitude toward "colonialism," it has given tacit support to Puerto Rican nationalism. It has complicated its adherence to the Rio Treaty with reservations relating to its claim to Belize (British Honduras). It has subscribed to the principle of inter-American military cooperation, but narrowly interprets that commitment. It voted for the UN "Uniting for Peace" resolution, but has declared that it would not implement it. These attitudes are not unique in Latin America, but Guatemalan propaganda in relation to them has a strong anti-US slant. Detriment to Hemisphere solidarity has not deterred and would not deter Guatemala from any course of action suggested by its own interests.

32. Since 1944 Guatemala has supported the "democratic" elements of other Caribbean countries in their struggles against "dictatorship" and has provided material assistance to "democratic" exiles from such countries. During 1948–1950 Guatemala supported the filibustering operations of the "Caribbean Legion" against the Dominican Republic and Costa Rica. Since 1950 the Legion has ceased to be operational, largely because of the withdrawal of Guatemalan support for such operations. However, Guatemalan official progaganda, with its heavy emphasis on conflict between democracy and dictatorship and between national independence and "economic imperialism," is a disturbing factor in the Caribbean area. Moreover, the Guatemalan Government, at the least, tolerates and indirectly assists clandestine Communist subversive activities in other countries. The Guatemalan Communist Party absorbs Caribbean exiles into its local organization, particularly into its labor and front groups, and through them it maintains contact with disaffected elements in other countries, thus enhancing its capabilities as a focal point for subversive activity throughout the Caribbean area.

33. Ever since the breakup of the Central American federation in 1939 there have been periodic attempts to restore some degree of union among the five states. Guatemala, as the principal state, has usually been the leader in such efforts. In 1951 El Salvador proposed the formation of an Organization of Central American States (ODECA) with a view toward gradual economic union and eventual political union. Guatemala attempted to assume to the leadership of this movement, but El Salvador, Honduras, and Nicaragua, alarmed by the manifestations of Communist influence in Guatemala, showed themselves resolved to use ODECA as a means of combatting Communism. In consequence Guatemala has withdrawn from ODECA, alleging the existence of an international conspiracy to interfere in Guatemala's internal affairs. This withdrawal confirms Guatemala's isolation in Central America.[3]

34. Simultaneously with its withdrawal from ODECA Guatemala complained to the United Nations regarding this alleged foreign interference. It is notable that Guatemala bypassed the Organization of American States in addressing this complaint to the UN. It probably calculated that its charge that US private interests (i.e., the United Fruit Company and its affiliates) were responsible for a "vast conspiracy" to subvert the existing regime would enlist the support of the Soviet and Arab-Asian Blocs in addition to that of such Latin American countries as Argentina, Bolivia, Chile, and Mexico.

35. El Salvador has shown extreme sensitivity regarding the danger of an extension of Communist influence from Guatemala into El Salvador and other neighboring states; there are persistent reports that El Salvador is giving serious consideration to joint military action with Honduras and Nicaragua against Guatemala. Other Caribbean countries, particularly the Dominican Republic, Colombia, and Venezuela, have also shown concern regarding the development of Guatemala as a center of subversive influence and even of subversive operations.

Probable Future Developments

36. Implementation of the Agrarian Reform Law of 1952 will be the principal objective of the Arbenz Administration during 1953. In the process the large Guatemalan landholders and the United Fruit Company will certainly be victimized. The net internal political effect of Agrarian Reform will probably be to strengthen the Arbenz Adminis-

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[3] On Apr. 4, 1953, Guatemala formally withdrew from ODECA. Foreign Ministers representing the remaining member countries (Costa Rica, El Salvador, Honduras, and Nicaragua), met at San José, Costa Rica, on Apr. 16, and resolved to invite Guatemala to reconsider its decision. They met again in an extraordinary session at Managua, Nicaragua, July 11–12, where they adopted resolutions condemning Communist infiltration into the countries of Central America ("Resolution of Managua"), and declaring that no action would be taken to block Guatemala's reentry into ODECA, if Guatemala expressed a desire to rejoin the organization. A translation of the text of the Resolution of Managua was transmitted to the Department of State under cover of despatch 29, dated July 21, 1953 (713.00/7-2153). Additional documentation relating to ODECA is in file 713.00.

tration. Neither the landholders nor the Fruit Company can expect sympathy from Guatemalan public opinion. Redistribution of their land will be used to mobilize the hitherto inert mass of rural workers in support of the Administration. Agrarian Reform will also afford the Communists an opportunity to extend their influence by organizing the peasants as they have organized other workers.

37. Agrarian Reform has already intensified a sense of insecurity which has had a depressing effect on business activity in Guatemala. As regards agricultural production its immediate effects are likely to be negligible: as presently implemented it will do little more than increase the number of subsistence farms. In the longer run it may seriously curtail the production of the Fruit Company plantations. As long as coffee prices hold up, however, the general economy of Guatemala is not likely to be vitally effected.

38. The dissatisfaction of important urban elements will probably increase, but effective political unity among these elements is not likely to be achieved. The political union of rural and urban interests in opposition to the Arbenz Administration is even less likely. No group or foreseeable combination of groups is likely to be able to bring about any significant moderation of the Administration's policy by political action. No revolutionary attempt opposed by the Army can be expected to succeed.

39. The Army could effect a rapid and decisive change in the Guatemalan political situation if it were to take concerted action. Although a quick change of attitude is always possible, there is no present reason to doubt the continued loyalty of the Army high command and of most of the Army to President Arbenz. The Army could not be expected to take revolutionary action unless its leaders became convinced that their personal security and well-being were threatened by Communist infiltration and domination of the Government, or unless the policies of the Government were to result in extreme social disorder and economic collapse.

40. As long as President Arbenz remains in power† the Arbenz-Communist alliance will probably continue to dominate Guatemalan politics. Any increase in political tension in Guatemala would tend to increase Arbenz' political dependence on this alliance.

41. The Governments of El Salvador, Honduras, and Nicaragua will continue to seek means to oppose the Communistic tendencies of Guatemala, and will give serious consideration to the possibility of effecting a political change in Guatemala through clandestine support of revolutionary activities. It is highly unlikely, however, that they would undertake an open military intervention in Guatemala or actually could organize an effective operation of that character in view of the

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† Arbenz' legitimate term in office will expire on March 15, 1957. Whether he will reach the end of his term, whether he would then retire, and what the character of his successor might be cannot now be estimated. [Footnote in the source text.]

limited strength of their armed forces, the proportion of that strength required for the maintenance of their own internal security, the fact that their forces are ill-equipped and untrained for field operations, the (for them) probably insuperable logistical obstacles to an open invasion of Guatemala, and the internal and international political difficulties which would ensue. Moreover, foreign military intervention would tend to cause all factions in Guatemala to unite to repel the invasion. So long as it remains united, the Guatemalan Army could defeat any force which El Salvador, Honduras, and Nicaragua were capable of deploying against it. In the event of such an invasion Guatemala could present a clear case of foreign intervention to the Organization of American States.

42. The Guatemalan Government will probably continue to assist Communist subversive activities in the Caribbean area, but will probably avoid involvement in military operations like those of the Caribbean Legion in 1948–1951. To counterbalance its isolation in Central America it will continue to seek political support elsewhere, particularly in the United Nations. If Latin American attitudes, as revealed at the UN, justify such a course, it will probably raise the same issue of foreign interference in the Organization of American States. It would certainly seek to invoke the Rio Treaty as well as the UN Charter if it were to be invaded by its neighbors.

43. Guatemala's tolerance of Communism and hospitality toward exiles makes it available as a convenient haven for Communist fugitives from the United States.

611.14/5–2153

Memorandum by the Officer in Charge of Central America and Panama Affairs (Leddy) to the Assistant Secretary of State for Inter-American Affairs (Cabot)

SECRET [WASHINGTON,] May 21, 1953.

Subject: Relations with Guatemala

I. *Communist Infiltration*

1. The trend toward increased communist strength is uninterrupted. A gigantic May Day celebration was used as a Commie display of strength, and the Communist labor leader Gutierrez made a rabid speech threatening the opposition with destruction. President Arbenz attended this rally, also made a speech (denying that Guatemala is Communistic) and warmly embraced Gutierrez. The Administration seized upon the ill-planned and abortive uprising at Salamá on March 29 to make a prolonged tirade on the "vast international conspiracy against Guatemala" and to intimidate the anti-communist opposition, jailing most of the active leaders it could lay hands on.

2. Nothing is yet known to verify the alleged asylum in Guatemala of the two bail-jumping U.S. Communists, Winston and Green, who were convicted with eleven other top Communists of Smith Act violation. When the charge was made by the INS correspondent, Stanley Ross, last March (on information given him by Trujillo), Foreign Minister Osegueda announced an investigation would be made, but nothing further has been reported, either on the investigation or verifying that Winston and Green are in Guatemala. (The Subcommittee inquired about this report in March.)

3. The Guatemalan Congress stood in silence in memory of Joseph Stalin, the only government body in the Western Hemisphere to do so. The Guatemalan labor federation is angling to affiliate with WFTU and CTAL. The official and semi-official press continues pro-communist.

II. *International Relations*

1. Guatemala on April 1 withdrew from the ODECA charging threat to its sovereignty from the attitude of the four other members, and also complained to the United Nations. Among its charges is a re-hash of old stuff about former Ambassador Patterson and Spruille Braden. Salvador and Nicaragua replied to the Guatemalan charges directly and sent copies to the UN. We decided to ignore the charges, as Guatemala, at least in the UN, was engaged solely in a propaganda maneuver.

2. ODECA continued on at San Jose in a special meeting on April 16, without Guatemala, but the door was left open for Guatemala to come in at any time. The next formal meeting of ODECA is scheduled to be held in Nicaragua but the date is not yet fixed. There is no sign that Guatemala will reconsider its decision to leave ODECA.

III. *American Interests Under Attack*

1. The United Fruit Company remains a prime target of the leftist Government coalition. The seizure of three-fourths of the Fruit Company's land on the Pacific side, under the Agrarian Law, has been finalized. We have notified the Guatemalan Ambassador that we will wish to discuss this in the normal representation of American interests, in order that prompt, adequate and effective compensation may be made. No reply has been received. The Fruit Company will ask the Department to present a claim for the value of its seized holdings but it has not yet referred this claim to the Department for action.

2. International Railways of Central America is also under recurring attack. An embargo was placed on its property about two months ago on a tax claim of $3.5 million but was later withdrawn, since the tax case is before the courts.

3. The Electric Light and Power Company, a wholly owned American and Foreign Power subsidiary, is under threat from two sources:

first, hydroelectric power development by the Guatemalan Government which would take water from the river supplying two of the company's plants; and second, revision of its concession contracts as a result of action by a Congressional committee dominated by Communists. This American company has notified the Department that in spite of all its efforts to come to an agreement with the Guatemalan Government it regards its future outlook as very pessimistic.

IV. *Our Policy*

1. For three years we have steadfastly maintained a policy of withholding favors from the Guatemalan Government and we will continue to do so as long as its toleration and encouragement of Communism continue. At the same time, we have not given in to various pressures for direct intervention, which would be in violation of our fundamental Latin American policy and solemn treaty commitments. At present, we encourage Central American nations to stand up to Guatemalan infiltration, with the ultimate purpose of bringing the Guatemalan situation before the OAS.

2. As an important prop to anti-communist Central American nations, we are presently seeking authorization from the Pentagon to include El Salvador, Honduras and Nicaragua in hemispheric defense plans, so that military assistance pacts may be negotiated with them, which would give them arms and material support and at the same time might bring home to the Guatemalan military the further disadvantages of non-cooperation with the U.S. Both Nicaragua and El Salvador are definitely interested, and Honduras might possibly be interested if the other two signed first.

We are also negotiating military mission agreements with Nicaragua and El Salvador, and facilitating the latter to purchase arms in the U.S.

3. We believe that the Guatemalan situation requires most delicate and patient handling and that the dangers to our interests from inadvisable action should be fully weighed against any immediate lure to dispose of the problem abruptly.

S/P–NSC files, lot 61 D 167

Draft Policy Paper Prepared in the Bureau of Inter-American Affairs[1]

TOP SECRET [WASHINGTON, August 19, 1953.][2]

NSC GUATEMALA

GENERAL CONSIDERATIONS

1. In Guatemala Communism has achieved its strongest position in Latin America, and is now well advanced on a program which threatens important American commercial enterprises in that country and may affect the stability of neighboring governments. Continuation of the present trend in Guatemala would ultimately endanger the unity of the Western Hemisphere against Soviet aggression, and the security of our strategic position in the Caribbean, including the Panama Canal.

2. Communist strength is derived from control of positions of influence and power in the labor movement, in the pro-Government political parties, and in the Government itself which, though not Communist, tolerates and encourages Communist support as useful to its own social reform program. The Communists have succeeded in identifying themselves with a nationalistic, leftist revolutionary movement that began with the overthrowing of a military dictatorship in 1944, and they have crippled their opponents by ranging the full strength of the Government's coalition against them. The Guatemalan Army, in which ultimate power resides, has displayed indifference toward growth of Communist influence.

3. The immediate Communist objective is the elimination of American economic interests, represented in Guatemala by the United Fruit Company, the International Railways of Central America, and the Guatemalan Electric Company. The loss of these enterprises would be damaging to American interests and prestige throughout Central America, and a severe setback to programs for economic development in the hemisphere through private capital investment.

4. The underlying Communist objectives in Guatemala are to prevent collaboration of that country with the United States in event of future international crisis, and to disrupt hemisphere solidarity and weaken the United States position. The Communists are not seeking

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[1] This paper, drafted for submission to the National Security Council, was forwarded under cover of a memorandum by Raymond G. Leddy to Robert R. Bowie, dated Aug. 19, 1953, not printed, requesting clearance by the Policy Planning Staff. The paper was returned to Mr. Leddy for revision on Aug. 31, 1953, and a revised draft was submitted to the Policy Planning Staff in mid-October. In late October, it was returned to ARA for additional revisions, and resubmitted to PPS in early November. On Jan. 12, 1954, it was returned to Deputy Assistant Secretary Woodward. None of the revised drafts were found in the files, nor was any indication that the paper was forwarded to the NSC. (S/P–NSC files, lot 61 D 167)

[2] The source text contains no indication of a drafting date; the date supplied is that of the covering memorandum.

open and direct control of the Guatemalan Government, at the present time, but are working to convert it into an indirectly controlled instrument of Communism.

5. Communist success in Guatemala thus far does not constitute a direct military or economic threat to the United States; but the uninterrupted trend in its favor is of serious concern to our interests and future security and requires determined study of means to reverse it.

OBJECTIVES

6. The objectives of the United States with respect to Guatemala are:

a. Prompt and effective collaboration of Guatemala with the United States in event of war or major international emergency.

b. Reversal by the Guatemalan Government of its tolerant policy toward Communist influence in the country and its present uncooperative attitude toward the United States.

c. Prevention of the spread of Communist influence from Guatemala to other countries in the hemisphere.

d. Establishment in Guatemala of favorable conditions for the conduct of business by United States interests on mutually advantageous terms.

e. Creation of conditions favorable to Guatemalan participation in hemisphere defense plans.[3]

COURSES OF ACTION

Political

7. The United States should seek to increase to the maximum the likelihood of prompt and effective collaboration by Guatemala in event of war or major international emergency by:

a. Conserving the underlying good will built up in Guatemala (as elsewhere) by our policies of non-intervention, respect for juridical equality and abnegation of a position of privilege.

We should therefore reject any action which by having the appearance of unilateral intervention in Guatemala would cause the Guatemalan people to turn against the U.S. and decline to offer their cooperation in time of emergency.

b. Pursuing the further objectives and courses of action outlined in paragraphs 8, 9, 10, and 11 below.

8. The United States should bring pressure on the Guatemalan Government to take effective action against Communist influence in the country and abandon its unfriendly attitude toward the United States by:

a. Impressing upon the Guatemalan Government at every opportunity the serious concern with which the United States views Communist influence in Guatemala, making it clear that this is the only important obstacle to cordial relations with this country. Correct diplomatic relations should be maintained with Guatemala to afford means of getting our views directly to the Government.

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[3] Apparent reference to the Inter-American Common Defense Scheme, dated Oct. 27, 1950, and the General Military Plan for the Defense of the American Continent, dated Nov. 15, 1951. Regarding the former, see Secretary of Defense Marshall's letter to Secretary Acheson, Dec. 16, 1950, *Foreign Relations*, 1950, vol. I, p. 679; regarding the latter, see the editorial note, *ibid.*, 1951, vol. II, p. 1028.

b. Withholding all further loans, grants and other favors from the Guatemalan Government, including U.S. cooperation in completion of the Inter-American Highway section in Guatemala.

Alternative course: Withholding of further loans, grants and other favors from the Guatemalan Government, with the possible exception of U.S. cooperation in completion of the Inter-American Highway section in Guatemala.

c. Limiting United States technical assistance in Guatemala to the present minimum operation, maintaining it only on an interim basis pending improvement in conditions in order to keep contact with influential non-Communist elements in and out of the Government.

d. Increasing isolation of the Guatemalan Government from its Central American neighbors and demonstrating more strikingly to the Guatemalan Army the advantage to be gained if the Guatemalan Government were to disengage itself from the Communists in the country by (1) seeking to conclude a military assistance agreement with Nicaragua[4] under the Latin American grant aid program; (2) giving special attention to requests from other Central American countries for the purchase of military equipment from either U.S. Government or commercial sources. The question of whether other Central American countries should be approached for the negotiation of grant aid agreements should be kept under review in the event that circumstances should prove that such agreements would contribute effectively to this course of action.

e. Refusing to sell arms and military materials to the Guatemalan Government under Sec. 408(*e*) of the Military Defense Assistance Act,[5] and refusing to license the export of any other arms or military materials for the Guatemalan Army and Police, so long as they are responsive to the instructions of Communist-influenced elements in the Government. Certain materials, such as blasting powder, airplane parts, etc. should be excepted from the foregoing in specific cases where denial of licenses would have unwarranted adverse effect on our interests.

f. Encouraging the ODECA to implement its resolutions[6] against Communist infiltration, but without affording the Communist-influenced Government an opportunity to unify the Guatemalan people behind it to combat a real or supposed threat to that nation's sovereignty.

g. Developing and keeping under constant review the factual record of specific evidence of Communist influence in the Government and official toleration or encouragement of international Communist activities, including attempts to subvert other American governments, in order to ensure the best possible presentation of the case for collective action through the OAS against Communists in Guatemala should it appear likely that such a move will obtain sufficient support from the other American Republics or should the Guatemalan situation be brought up in the OAS by some other government.

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[4] On Apr. 23, 1954, the United States and Nicaragua signed at Managua a Military Defense Agreement, which entered into force on the same date; for text, see 5 UST 453, or TIAS No. 2940. See the editorial note, p. 1378.

[5] Of 1949.

[6] Reference is to the "Resolution of Managua" adopted by ODECA at its meeting of July 11–12, 1953; for additional information, see footnote 3, p. 1069.

h. Arousing Latin American public opinion against Communist progress in Guatemala through a covert information program.

i. Intensifying United States information programs, both overt and covert, aimed at isolating Communist elements in Guatemala from the Guatemalan people and government. Maximum use should be made of Bogotá Conference Resolution XXXII, Resolution VII[7] of the Washington Foreign Ministers Meeting, and any other OAS or ODECA actions aimed at international Communist influence.

j. Lending assistance wherever prudent to the Catholic Church in its fight against Communism in Guatemala.

k. Assisting United States labor organizations to develop relations with Guatemalan non-Communist labor leaders and encouraging the growth of a non-Communist labor movement.

9. The United States should seek to prevent the spread of Communist influence from Guatemala to other countries in the hemisphere by:

a. Consulting with other Latin American governments, pursuant to existing agreements, on measures to control international movement of Communist agents.

b. Implementing any collective action undertaken through the OAS. (See paragraph 8(*g*) above.)

c. Strengthening Guatemala's militarily weak Central American neighbors by entering into grant aid agreements with Nicaragua and other Central American governments whose eligibility may be established, and by making arms and materials available to them under Section 408(*e*) of the Mutual Defense Assistance Act.

10. The United States should seek establishment in Guatemala of favorable conditions for the conduct of business by United States interests on mutually advantageous terms by:

a. Continuing correct diplomatic relations with Guatemala insofar as possible, so that matters concerning protection of United States interests in Guatemala may be dealt with directly between the two Governments as occasion demands.

b. Impressing upon the Guatemalan Government the need for reasonable treatment of foreign capital in order to further the orderly economic development of the country.

c. Encouraging the three principal United States firms in Guatemala to make modifications, at the appropriate time, in their contracts with the Guatemalan Government which would be acceptable to both sides and which would eliminate some of the grounds for misunderstanding and resultant popular resentment against the companies.

d. Encouragng the principal United States companies in Guatemala to continue development of improved labor relations and public relations policies.

e. Making clear and reasonable diplomatic representations whenever United States interests in Guatemala are deprived of substantial rights to which they are entitled under international law.

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[7] For text of the referenced resolution, see *Proceedings of the Fourth Meeting of Consultation of Ministers of Foreign Affairs*, pp. 243–244.

11. The United States should seek establishment of conditions favorable to Guatemalan participation in hemisphere defense plans by:

a. Maintaining our Military and Air Force Missions in Guatemala as long as local conditions permit, in order to maintain friendly contact with non-Communist elements in the officer corps, pre-empt the function of military adviser to the Guatemalan armed forces, and maintain the present degree of standardization of arms and training insofar as possible; also by the presence of these missions to keep the door open to a more complete standardization if and when conditions are such that authorizations for arms exports from the U.S. can be renewed.

b. Seeking to retain the good will of the officer corps, particularly through the present period when arms exports from the U.S. are not authorized, by conveying to them an understanding of the reason for such action on our part and by every other means reasonable under the special circumstances of present relations between our two countries.

Annex

STAFF STUDY

GENERAL CONSIDERATIONS

1. Guatemala is the northernmost and third largest of the five small republics between Mexico and Panama. It is roughly 1,000 miles south of New Orleans and 750 miles northwest of the Panama Canal. Over half of its 2,900,000 people are Indians who participate only to a limited extent in the money economy and political life of the nation. Guatemala is predominantly an agricultural country, and although well endowed by nature for producing a variety of crops, its economy is still heavily dependent on coffee.

2. In terms of its own resources and manpower, the contribution that Guatemala can make toward United States security is slight. Although useful sources of a few strategic materials might eventually be developed, present production of such products is of negligible importance to this country. In the event of war, Guatemala, as in the last conflict, could provide the United States with the site for an air base at Guatemala City, but the greater range of modern aircraft may have considerably diminished its present or future usefulness to us. The International Railways of Central America, though of possible value as a trans-isthmian route in event of destruction of the Panama Canal, is a narrow gauge (36″) line of limited capacity, easily sabotaged, and has only open roadsteads at the Pacific termini.

3. Guatemala could endanger United States security, however, were it to give refuge or aid to enemy saboteurs and propagandists, or were it to allow use of its airfields, ports and other facilities and resources by an enemy power. Sabotage to airfields and military installations would be of importance only in relation to the degree to which these

are built up and used by United States forces in event of war. Sabotage against the railroads and other United States-owned commercial interests would injure the Guatemalan economy far out of proportion to the adverse effect on the United States war potential. Since Guatemala would be incapable of resisting a strong attacker, denial of Guatemalan facilities and resources to an aggressive enemy power would necessarily fall to the United States. Should the Guatemalan Government assume a hostile attitude in an emergency, the United States could secure the airport and other strategic points against its forces with a battalion or two of well-trained troops.

4. Guatemala is of special importance to the United States primarily for having provided the leading example of Communist penetration in the American Republics. This situation tests our ability to combat the eruption and spread of Communist influence in Latin America without causing serious harm to our hemisphere relations. It may be assumed that fundamental Communist objectives in Guatemala include the following: (a) to prevent collaboration between that country and the United States in time of future emergency, (b) to encourage the growth of Communism elsewhere in Latin America, and (c) to provoke the United States into action which would be contrary to our Inter-American commitments and which would injure hemispheric solidarity.

5. The principal subsidiary problem facing the United States in Guatemala concerns treatment of private United States interests. Influenced by extreme nationalists and Communists, the Guatemalan Government has begun expropriation of substantial United States-owned assets in the country, having for several years followed a policy of increasing hostility and harassment toward the principal American companies operating there. These are the United Fruit Company; the International Railways of Central America, (partially owned by the former); the Empresa Electrica de Guatemala, (owned by a subsidiary of the Electric Bond and Share Company); and Pan American Airways. All but the last named have large capital investments in Guatemala. The crippling or expulsion of these American enterprises would adversely affect the position of United States commercial interests elsewhere in the hemisphere, and would produce a number of subsidiary but troublesome local problems, such as securing just compensation for property seized.

6. Communist influence in Guatemala grew up in the aftermath of the Revolution of 1944, which brought an end to the latest of the country's many military dictatorships and replaced it with a liberal-minded administration which promised quick change. Initial popular enthusiasm for the 1944 revolutionary movement attested to the depth

of discontent with the political repression, social backwardness and "economic colonialism" which had been the pattern of the past.

7. The Administrations of President Arevalo (1945–51) and President Arbenz (1951–), in frustration at the frictions caused by their own ignorant tampering with the national social and economic structure, have attempted to shift responsibility for Guatemala's difficulties to forces outside its borders. Exploiting nationalist sentiment to the utmost, they have insisted that Guatemala is the victim of a conspiracy directed by the United Fruit Company which is determined to prevent the betterment of the Guatemalan people.

8. Communists ably supported Arevalo and Arbenz in their attacks on "economic imperialists" and in their efforts to legislate sudden reform. The Communists identified themselves with every aspiration of the revolutionary administrations. Toleration of Communist activity which characterized the early years of the Arevalo administration developed into an effective working alliance between the Communists and Arbenz.

9. Key to present political tensions in Guatemala is the Agrarian Reform Law, enacted in mid-1952 and described by President Arbenz as the most important measure of the Revolution. This law provides for the expropriation of large tracts of unused land and their distribution to the peasants. Although presented as a long-overdue measure of social and economic reform, the law has strong political motivation and significance. Its drastic provisions are designed to produce social upheaval rather than to execute any economic plan. Communists and fellow travelers instantly seized the opportunity afforded them by the Administration's proposal to institute agarian reform. They played a leading part in the preparation and enactment of the agrarian law. They have infiltrated the National Agrarian Department established to administer it, and have incited disorderly peasant seizures of privately owned lands. The Agrarian Reform Law is being used to attack the United Fruit Company, to destroy the political effectiveness of the large landholders, and to mobilize the hitherto politically inert peasantry in support of the regime.

10. Militant Communists in Guatemala are estimated at a few hundred. Of these perhaps two or three dozen are dangerous leaders or agitators. Almost without exception they are indigenous to the area and are Mexico-trained rather than Moscow-trained, although some have visited the Soviet orbit and may have received brief instruction there.

11. The Communists have achieved their present political influence in Guatemala, not as a political party competing with others, but through personal influence with the President and through the coor-

dinated activity of individual Communists within the leftist political parties and labor unions which emerged from the Revolution of 1944.

12. With the assistance of the Government, Communist and Communist-influenced labor leaders have been the most successful organizers of Guatemalan labor. Their formation of the General Confederation of Guatemalan Workers (CGTG) and Government pressure for labor unity have facilitated the extension of their control over all organized labor. The Communists are seeking to mobilize the mass of rural workers through the CGTG and the National Confederation of Guatemalan Peasants (CNCG), in which they exercise a strong influence. The basic weakness of Guatemalan Communist labor leadership is that it is imposed from above through top control of the machinery or labor organization and cannot be sure of rank and file support.

13. Through their leadership in organized labor and their influence with the President and within the pro-Administration political parties, the Communists have gained many positions of influence within the Government: In Congress (where they dominate the Special Committees on Agrarian Reform and Labor Code Revision), in the National Electoral Board, the National Agrarian Department, the Institute of Social Security, the Labor Courts, the Ministry of Education, and the Presidential Secretariat of Propaganda, and in the official and pro-Administration press and radio. Their influence is extended by an indefinite number of Communist sympathizers in similar positions. At the same time, no Communist holds any position of Cabinet rank and the Communists appear to have made little or no effort as yet to infiltrate the Police or Army.

14. Opposition to the Arbenz regime is disorganized and ineffective. There is no likelihood it could alter the course of the Government by political action. It could not succeed in a revolutionary attempt opposed by the Army.

15. The Governments of El Salvador, Honduras, and Nicaragua are fearful that the trend in Guatemala will lead to Communist subversion and social upheaval in their territories. They are probably giving serious consideration to clandestine support of revolutionary action in Guatemala. It is highly unlikely, however, that they would or could mount an open military intervention against Guatemala. The Guatemalan Army could probably defeat any force which they could deploy against it.

16. The Army is the only organized element in Guatemala capable of rapidly and decisively altering the political situation. There is no reason to doubt that President Arbenz still has the loyalty of the Army, which has taken its lead from him and thus far refused to concern itself over the growth of Communist influence in political life.

17. It is possible that President Arbenz thinks of the Communists in Guatemala only as reformers and useful allies rather than as Soviet agents. Since he has no support of consequence from any propertied interests other than those created by the Revolution, he is probably unwilling to repudiate the Communists and risk the loss of much of his organized political backing. Therefore, even though Arbenz still exercises personal control of the Administration, the Army and the Police, and could break his ties with the Communists and moderate the policies of the Government, it is not likely that he will voluntarily do so under present conditions.

18. In addition, Arbenz and other Government leaders, as officials of a small country near the United States who feel some resentment against it for one reason or another, may tend to find satisfaction in deliberately affronting the United States by showing friendliness to Communist leaders and in observing the attention aroused by their attitude. In any event, Guatemala's protestations of friendship with the United States have thus far been given against a background of official Guatemalan encouragement to Communist activity.

19. On the other hand, there are certain factors which would impel most Guatemalans, possibly including President Arbenz and other non-Communist Government officials, to identify Guatemala's ultimate interests with those of the United States rather than the USSR and to desire to cooperate with the United States in controlling enemy saboteurs and propagandists in event of war or major international crisis. These factors are: (1) Guatemala's western cultural and political orientation; (2) Guatemala's proximity to and economic dependence on the United States; and (3) the fact that the United States has built up in the American Republics, especially in the Caribbean area, a great reservoir of fundamental good will through our policies of non-intervention, respect for juridical equality and abnegation of a position of privilege.

20. Notwithstanding the disturbing amount of Communist influence in Guatemala, its Government still votes with the free world on most of the substantive issues between it and the Soviet bloc. There are certain other small signs of its continued willingness to remain in our camp, such as the fact that our Military and Air Missions are still operating in Guatemala.

21. Nevertheless, any likelihood of voluntary cooperation by the Arbenz Government with the United States in a future crisis would vanish (*a*) if the Communists in the Administration should overpower it completely, or (*b*) if President Arbenz should meanwhile conclude that all means of reaching an understanding with the United States were closed, and commit himself to a policy of frank hostility toward this country.

22. Our present position in Guatemala is progressively deteriorating. Politically, Communist strength grows, while opposition forces are disintegrating; economically, American enterprises suffer continuous whittling away of their properties and contractual rights while our remonstrances are rejected. Ultimate Communist control of the country and elimination of American economic interests is the logical outcome, and unless the trend is reversed, is merely a question of time. In seeking means to reverse this trend, we must consider:

a. A policy of non-action would be suicidal, since the Communist movement, under Moscow tutelage, will not falter nor abandon its goals.

b. Ineffective defense of American enterprises will be followed by similar attacks on these same companies in neighboring countries, and subsequently on other U.S.-owned industries in other Latin American countries.

c. A solution of the Guatemalan problem by means repugnant to the rest of Latin America might cost more than it would be worth, as it could create a larger problem with the hemisphere than we would have ended with one country.

d. Any solution will depend on our action, since other American republics have neither the capacity nor decision to act.

ALTERNATE LINES OF POLICY

23. The United States could follow one of four general lines of policy with respect to Guatemala:

a. Policy of direct intervention. Militarily, Guatemala would be defenseless against direct United States action. Imposition of unilateral economic sanctions, if mechanism to enforce them were made available, would at least cause a drastic and no doubt painful shift in the flow of Guatemala's trade, since the United States takes 85 percent of Guatemala's exports and supplies 60 percent of its imports. However, the use of direct military or economic sanctions on Guatemala would violate solemn United States commitments and under present circumstances would endanger the entire fund of good will the United States has built up in the other American Republics through its policies of non-intervention, respect for juridical equality, and abnegation of a position of privilege. Loss of this good will would be a disaster to the United States far outweighing the advantage of any success gained in Guatemala.

b. Policy of covert intervention. Our secret stimulation and material support of the overthrow of the Arbenz Government would subject us to serious hazards. Experience has shown that no such operation could be carried on secretly without great risk of its leadership and backers being fully known. Were it to become evident that the United States has tried a Czechoslovakia in reverse in Guatemala, the effects on our relations in this hemisphere, and probably in the world at large, could be as disastrous as those produced by open intervention.

c. A policy of inaction. The United States could allow events to take their course in Guatemala in the hope that the problem will solve itself, possibly along the lines of the Mexican Revolution, which also had Communist backing for land "reform" and foreign expropriation. This is obviously a false hope in the existing context of world affairs, and disregards both the importance of Communist penetration and the certainty that the United States must aggressively lead the fight against it wherever it appears in the hemisphere.

d. Policy of firm persuasion. As long as the Government of Guatemala cooperates with the Communists we should decline to cooperate with it. The United States should adopt courses of action which will oblige the Guatemalan Government to see for itself that its persistence in favoring the Communists will lead the country to ruin; and which will induce it to recognize the advantages of cooperating with the United States. In exploiting all the possibilities of this policy we should endeavor in all appropriate ways to bring the pressure of Latin American public opinion to bear upon the Guatemalan Government and people; we should encourage ODECA in its moves aimed at the Communists in Guatemala; and, if and when it occurs that a case has been developed which will command support from a majority of the OAS, we should initiate or support OAS action against Guatemala. If direct unilateral action should become necessary in a future emergency, the Arbenz regime could easily and quickly be overthrown possibly with less Latin American opposition than we would encounter under present conditions, and very possibly with Latin American support. Meanwhile, we must recognize realistically that our present policy of firm persuasion, though avoiding an outright break with the Guatemalan Government, has not deterred it from its stated course.

Courses of Action

24. Although Arbenz is sensitive to pressure exerted by the United States, he will resist it without regard to practical consequences wherever he believes he can gain political advantage by so doing. This makes execution of our policies a delicate and dangerous matter.

25. We have frankly discussed the Communist problem with high Guatemalan officials in Washington and in Guatemala. They have brushed aside our views on Communist influence in the country as exaggerated. They have described the Communist issue as a false one fabricated by the United Fruit Company. We must continue, however, in the effort to dispel the illusions of anyone in the Guatemalan Government who believes the Government's official version.

26. We have for some time withheld virtually all cooperative assistance from Guatemala. The exceptions have been a reduced Technical Assistance Mission (engaged in three small projects begun during World War II) which we have desired to maintain at a minimum level as a toe-hold pending improvement in political conditions; and our military and Air Force Training Missions, which we have desired to keep friendly United States contact with the politically important officer corps.

27. The withholding of other favors has proven effective in demonstrating to the Guatemalan Government the seriousness with which we view its cooperation with Communism, and the policy should be continued. However, consideration should be given the alternatives of withholding or granting our cooperative assistance in completion of the Guatemalan sector of the Inter-American Highway.

28. Guatemala has formally offered to enter into an agreement with the United States for the continued cooperative construction of its sector of the Inter-American Highway, making all of the assurances required by law for the expenditure of United States funds. We have already made such agreements with El Salvador, Nicaragua, Costa Rica, and Panama. On the one hand, our refusal to resume cooperation with Guatemala on the Highway will constitute the most forceful measure available to us under the policy of withholding favors, as it is the one most urgently desired by Guatemala. On the other hand, it would be in our interests to conclude a cooperative agreement with Guatemala for construction of the Highway, for the following reasons:

(1) It is the only means of insuring that the as-yet-unconstructed 25-mile gap immediately adjacent to Mexico will not become a serious bottleneck for the entire Central American portion of the Highway. Guatemala will sooner or later attempt to build this section itself if we fail to enter into the agreement, and will probably exercise its consequent freedom to place on it the special tolls or other restrictions which would be expressly forbidden under the terms of the agreement.

(2) It would open Guatemala and the rest of Central America to Inter-American Highway traffic which is now unable to pass beyond the Mexico–Guatemala border because of the gap on the Guatemalan side. This would stimulate extensive tourist travel and commercial movement on the Highway between the United States and Guatemala and would to that extent increase beneficial United States influence in Guatemala.

29. Careful study should be given the concluding of Military Defense Assistance Pacts with El Salvador, Nicaragua, and Honduras.[8] Exclusion of Guatemala would have the practical effect of emphasizing to the Guatemalan Army the disadvantage to it caused by the Government's friendliness toward Communism. To be weighed against this is the risk that conclusion of the pacts might stir nationalist feeling in Guatemala and strengthen rather than diminish Army support of the Arbenz regime. An additional difficulty is the apparent disinclination of El Salvador and Honduras to conclude such agreements. A pact with Nicaragua should be pushed as a first step toward bracing Guatemala's neighbors with our military support.

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[8] On May 20, 1954, the United States and Honduras signed at Tegucigalpa a Military Assistance Agreement, which entered into force on the same date; for text, see 5 UST 843, or TIAS No. 2975. See Mr. Murphy's letter to Assistant Secretary of Defense Hensel, Aug. 10, 1954 p. 1311.

30. Pending the conclusion of Military Defense Assistance Pacts which would enable the United States to give military grant-aid to El Salvador, Nicaragua, and Honduras, we should make arms and materials available to them by direct purchase under Sec. 408(*e*) of the Military Defense Assistance Act, in order to help strengthen those militarily weak governments against Communist subversion and pressure from Guatemala.

31. The United States should continue to refuse to sell arms and materials to Guatemala under Sec. 408(*e*) of the Military Defense Assistance Act, and to continue to deny export licenses for other arms and materials sought in this country for the Guatemalan Armed Forces. This policy should be enforced so long as they are loyal to the Communist-influenced central authority and hence likely to employ their weapons against anti-Communists. It is recognized that the withholding of arms will necessarily impede the functions of the United States Military and Air Force Missions in Guatemala. We should consider occasional approval of export licenses for materials other than military arms and ammunition should it appear in specific cases to be in our interest to do so.

32. An arraignment of Communist penetration in Guatemala and from Guatemala to other American Republics should be prepared for use in the event that OAS action appears feasible and practicable. The United States should assist by developing a factual case record of specific evidence of (1) Communist influence in the Government; (2) encouragement or toleration by the Government of Communist elements who are acting or appear to be acting under Kremlin directives, and (3) encouragement or toleration by the Government of attempts at subversion of any other American Government. This case record should be kept under constant review in order to determine whether or when its nature is such that its presentation in the OAS would gain sufficient support from the other American Republics to assure that collective inter-American action will be taken to achieve the elimination or marked diminution of Communist influence in Guatemala.

33. Many of the difficulties encountered by United States commercial interests in Guatemala are the direct work of Communists, but certain problems would remain even after elimination of their influence. Deep-rooted nationalist feeling will remain an obstacle to the solution of some of the principal ones. We should encourage the United Fruit Company, the IRCA, and the Empresa Electrica to negotiate with the Guatemalan Government, whenever that Government is disposed to enter such negotiations in good faith, with a view to revising their concession contracts in such a way as to diminish nationalist prejudices against the companies and at the same time obtain from the Government satisfactory assurances of reasonable treatment of the companies.

Eisenhower Library, Jackson records

Memorandum for the Record, by Richard Hirsch of the Operations Coordinating Board[1]

CONFIDENTIAL WASHINGTON, October 29, 1953.

Subject: Debriefing of Ambassador Rudolf E. Schoenfeld, October 28, 1953

Of the various comments made by Ambassador Schoenfeld on the communist situation in Guatemala, the following are most relevant to OCB interests:

1. The communist power-drive in Guatemala has reached an advanced state of infiltration, they hold key positions in (*a*) the agrarian movement, (*b*) the labor movement, (*c*) government administration short of cabinet level.

2. President Arbenz, who is half Swiss, has a granite streak of stubbornness in addition to his volatility and firmly convinced that he can deal with the communists whenever he has to. This optimism is not shared by Ambassador Schoenfeld, who feels that Arbenz has not even begun to appreciate the real purposes and techniques of communism as a power-seeking movement, not a social reform.

3. On the anti-communist side, there are very few positions of strength. The church is extremely weak, all of its property having been confiscated, and a strong anti-clerical attitude exists. The intellectuals are either bemused by the appeals of communism, or are hypersensitive to the U.S. The land-owners are strictly apolitical and will not permit themselves, or their sons, to engage in political activity. They feel that Guatemalan politics has three unattractive destinations: the palace, the jail, or the cemetery. The independent press, however, is very alert to the communist danger.

4. Guatemala represents in miniature all of the social cleavages, tensions, and dilemmas of modern Western society under attack by the communist virus. Conditions will worsen considerably before we can improve them, and we should regard Guatemala as a prototype area for testing means and methods of combatting communism.

5. It will be of primary importance for U.S. labor organizations to encourage the growth of free trade unions in Guatemala, for U.S. corporations to adopt enlightened labor policy in the area, and for the U.S. Government to develop information activities along non-attributable lines.

RICHARD HIRSCH

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[1] A covering memorandum by H. S. Craig of the Operations Coordinating Board to C. D. Jackson, dated Oct. 29, reads as follows: "Ambassador Schoenfeld's estimate of the advanced state of communist infiltration in Guatemala may interest you. Meanwhile, the staff is developing a possible action proposal for your consideration."

814.2333/11–2553

Memorandum of Conversation, by the Director of the Office of Regional American Affairs (Cale)

CONFIDENTIAL [WASHINGTON,] November 25, 1953.

Subject: Guatemalan Coffee

Participants:
- Mr. Jim O'Connor, President, National Coffee Association
- Mr. R. A. Medina, R. A. Medina Co.
- Mr. Phil Nelson, Ruffner, McDonnell & Burch, Inc.
- Mr. Harry H. Allen, Vice President, Otis McAllister Coffee Corp.
- Mr. John F. McKiernan, Executive Vice President, National Coffee Association
- Mr. Cabot, ARA
- Mr. Cale, AR

Mr. Cabot pointed out that the Department is faced with a very difficult problem as a result of communist influence within Guatemala. He said that in considering possible courses of action to meet the situation the question of economic sanctions has to be considered. In this connection, coffee, which supplies some 80 per cent of the Guatemalan foreign exchange, is obviously the most important single individual commodity on which action might be taken.

Mr. Cabot stated that he wished members of the group to understand that they had been invited to Washington not because any immediate action involving coffee is now contemplated but because he wishes to have the benefit of the advice of the representatives of the coffee trade in connection with our consideration of possible action.[1]

Mr. O'Connor pointed out that the companies of Messrs. Medina, Nelson and Allen do the major part of the import business in Guatemalan coffee and that they are accordingly in an excellent position to advise the Department on the matter.

Mr. Cabot stated that the Department would like to have the group's views as to the feasibility and mechanics of a Government embargo against or an industry boycott of Guatemalan coffee.

At Mr. O'Connor's suggestion, Mr. Medina spoke first for the coffee representatives. He said that the group had had an opportunity to discuss the question in a preliminary fashion but that they had not considered the possibility of an industry boycott in the absence of action by the Government. Mr. Medina then called attention to the following considerations:

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[1] A previous conversation relating to possible action against Guatemala involving coffee took place at the Department of State on Feb. 27, 1952, between Mr. Mann, Mr. Cale, Mr. Siracusa, and a representative of the National Coffee Association; a memorandum of that conversation, by Mr. Siracusa, dated Feb. 27, 1952, not printed, is in file 814.2333/2–2752.

1. That it is often impossible to distinguish between Guatemalan coffee and coffee grown in nearby countries such as Mexico and El Salvador. Under these conditions, even if the United States Government should embargo Guatemalan coffee, it would be likely to find its way into this country through Mexico, El Salvador and other Latin American countries.

2. That American coffee importers, at any time, have large investments in coffee in Guatemala. Accordingly, an embargo on Guatemalan coffee would subject such importers to considerable financial loss.

To Mr. Cale's inquiry whether it would be possible for the importers to avoid this loss, if they were informed several months in advance of the contemplated action, Mr. Medina stated that prior notice would be helpful. He pointed out, however, that the helpfulness of the notice would depend not only on the period of the notice but on the time of the embargo. Mr. Allen called attention to the fact that his company and certain other coffee importers advance rather large sums of money early during a crop year to finance the production and harvesting of the crop. The crop year in Guatemala, he said, begins around October 1st. If the Government were contemplating action, he said that June 1, with several months of advance notice, would probably be as good from the point of view of timing as any other date.

Mr. O'Connor pointed out, however, that, in view of the present tight market situation, such a date would be about as unfavorable as any that could be chosen from the viewpoint of its effect on price, since there is very little coffee available for sale and shipment during this period. It was Mr. O'Connor's estimate that excluding the 800,000 bags of Guatemalan coffee which we normally import, if such exclusion were possible, would probably raise the price of all coffee to the United States consumer by as much as 10 cents per pound.

Mr. Allen called attention to another adverse effect of embargoing Guatemalan coffee, namely, the fact that it would force the Guatemalan Government to become much more involved in the coffee trade than it is at present. This, he said, he regarded as contrary to the long-run interests of the United States coffee industry.

Mr. Cale then inquired whether it would be possible for this Government to take action only against coffee now grown on the Government's lands, which amounts to some 15 per cent of the total Guatemalan production. The group was of the opinion that even if United States importers did not buy coffee produced on these lands at the auctions at which it is now sold, such coffee would nevertheless find its way into the United States. They pointed out that this coffee is sold before it is fully processed and that there is no way of maintaining its identity.

Mr. Nelson referred to the fact that Mr. Cabot had spoken of a possible boycott on the part of the coffee trade. He expressed the view that this would simply not work, since the coffee business is highly competitive and since, in the unlikely event that all the present members of the coffee trade would cooperate, fly-by-night operators would appear to handle this part of the business. Mr. Nelson also called attention to the fact that even if Guatemalan coffee were excluded from this market, it would very probably be sold in Europe. Mr. O'Connor added that in this event it might very well end up in the United States. He pointed out in this connection that a considerable volume of Brazilian coffee is now being imported into the United States via Europe.

Mr. Nelson also expressed the belief that embargoing Guatemalan coffee would have a very adverse effect on our relations with the Latin American countries generally, since they are very sensitive to economic pressure of any kind by the United States.

Mr. Allen supported Mr. Nelson's views in this regard, pointing out that there are very close family relationships throughout the Cental American area and that these would tend to heighten the reaction against the United States.

Mr. Cabot inquired as to the feasibility of levying an import tax on Guatemalan coffee. Representatives of the group said that this would be very dangerous since it might set a precedent for an import tax on coffee from other countries as well. They pointed out that there have been numerous proposals in the past for taxing the importation of coffee, all of which have so far been successfully resisted. They indicated, however, that the coffee trade, to a man, was fearful that an import tax on coffee might some day become a reality. They stated that this would, of course, be harmful to the coffee importers and roasters in this country as well as to the coffee producers in Latin America.

Mr. Cale inquired what the group's views would be as to the feasibility of requiring that the consumer be informed whenever he buys Guatemalan coffee. Mr. O'Connor said that coffee purchased by the consumer is generally a mixture of several types and that all coffee would have to be labelled in order to show the consumer the proportion of Guatemalan coffee. He stated that this would greatly hamper the operations of the coffee roasters who change their blends often in accordance with availabilities of various types of coffee.

Mr. McKiernan pointed out, in addition, that the net effect of such a requirement might be to reduce coffee consumption generally. He feared, he said, that any action to get the American public to consume less Guatemalan coffee would result in a decline of consumption of all coffee.

Mr. Cabot thanked the representatives of the coffee industry for giving the Department the benefit of their views. They expressed their pleasure in being able to do so and stated that they regretted that they were not able to make any suggestion which they considered feasible whereby coffee might be used as a means of improving the situation in Guatemala, which they recognize as very serious.[2]

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[2] On Feb. 8, 1954, Senator Margaret Chase Smith (R.–Maine) introduced Senate Resolution 211, calling upon the President, *inter alia*, to take the necessary steps to institute an embargo against the importation of Guatemalan coffee into the United States; for text, see *Congressional Record*, 83d Cong., 2d sess., vol. 100 (pt. 2), p. 1475. Department of State files indicate that representatives of the Department advised Congress against taking such action.

611.14/12–1754: Telegram

The Ambassador in Guatemala (Peurifoy)[1] to the Department of State

SECRET GUATEMALA CITY, December 17, 1953—7 p.m.

154. President and Mrs. Arbenz[2] entertained my wife and me privately at dinner last night and we had a frank six hour discussion of the Communist problem here lasting until two this morning. President showed depth of his feeling against United Fruit Company and his admiration for Guatemala's Communist leaders, leaving no doubt he intended to continue to collaborate with them.

I opened conversation by telling President I was interested in seeing what I could do to improve relations and asked if he had any suggestions. He began by saying problem here is one between United Fruit Company and his government. He spoke at length and bitterly on Fruit Company's history since 1904, complaining especially that now his Government has a $70 million budget to meet and collects only $150,000 in taxes.

I interrupted here to say I thought we should put first things first, that as long as Communists exerted their present influence in Guatemalan Government I did not see real hope of better relations.

President then answered that there were some Communists in his Government and that [they] had certain amount of influence, but they were "local." He described his friendship with Victor Manuel Gutierrez, Communist secretary general of country's only national labor federation, and Jose Manuel Fortuny, head of Guatemala Communist Party.

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[1] John E. Peurifoy was appointed Ambassador to Guatemala on Oct. 5, 1953; he arrived in Guatemala City on Oct. 29, and presented his credentials on Nov. 4.

[2] María Cristina Vilanova de Arbenz Guzmán.

They were both "honest" and followed Guatemalan not Soviet interests. They went to Moscow (Fortuny is on trip there now) merely to study Marxism, not necessarily to get instructions.

I asked by name about several Communists and Communist suspects in National Agrarian Department, directorate general of Radio Broadcasting and Guatemala Institute of Social Security. Before translating, Mrs. Arbenz started in each case to deny twenty were Communists, but three times President contradicted her saying he was sure they were. I asked whether Government adverting [*advertising?*] helped support Communist *Tribuna Popular* and after Mrs. Arbenz again started to deny, President admitted that it did. Also asked about Guatemalan Congressional memorial observances for Stalin's death and Mrs. Arbenz explanation was Guatemalan people regarded Roosevelt, Churchill and Stalin as saviors of world. Communists presented no threat and his government was in full control.

Touching on the Caracas conference,[3] I told President that since he has said Communists were of no consequence in Guatemala, I found it strange Guatemala had cast its vote against inclusion of the item on Communist infiltration on agenda. He said that this was interference in internal affairs, that they did not want outsiders coming in to investigate their country. I told him this was not a question of investigating, but discussing means and methods of combatting a godless ideology, but he reiterated views that Communism was not a threat. President took up agrarian reform, saying there had been much opposition from American circles and others in the country. I told him we had worked and were working with countries who had introduced land reform, citing my experience in Greece[4] and present situation in Bolivia. I said the difference seemed to lie in the administration, not in principle of assisting poor people to obtain land. I pointed out the explanation was perhaps in fact that National Agrarian Department was dominated by Communists. I said I was sorry he had had no concrete proposals to make to improve our relations. He then reverted to Fruit Company and said this was the stumbling block: It was a large American organization which dominated press in US. I explained Fruit Company was relatively small by US standards and no corporation as far as I knew dominated any of US press whose Guatemalan reports were based by on-the-spot investigation. At one point President stated if there were a choice, it would be for Guatemala to live under Communist domination than live for fifty years with Fruit Company.

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[3] Reference is to the Tenth Inter-American Conference, which convened at Caracas, Venezuela, Mar. 1–28, 1954; for documentation on the conference, see pp. 264 ff.

[4] Ambassador Peurifoy had been Ambassador to Greece, 1950–1953.

Foregoing took place in atmosphere of frank and polite exchange of views, and on leaving I told President I was disappointed because we had not accomplished anything. He said after I had become familiar with country, I would probably come around to his way of thinking. I told him I did not believe anything would make me convert to Communism and feared situation would get worse because Americans had given blood and paid high taxes and would continue to do so as long as Communism threatened free nations. President ended by giving me private phone numbers, saying I should get in touch with him whenever I wanted without going through Foreign Office.

I came away definitely convinced that if President is not a Communist he will certainly do until one comes along, and that normal approaches will not work in Guatemala. I am now assessing situation in this light and expect to submit recommendations in a few days.

PEURIFOY

611.14/12-2353:Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET GUATEMALA CITY, December 23, 1953—3 p. m.

163. As a result my interview with President Arbenz (mytel 154 December 17),[1] I am convinced Communists will continue gain strength here as long as he remains in office. My staff agrees fully on this. Therefore, in view of inadequacy of normal diplomatic procedures in dealing with situation, there appears no alternative to our taking steps which would tend to make more difficult continuation of his regime in Guatemala. In present telegram, I shall deal with measures which, while they may not in themselves prove sufficient to produce political change here, are designed to contribute to creating climate favorable to such change.

Before Caracas conference, we should concentrate on preparing other well-disposed governments in Latin America for supporting our anti-Communist resolution[2] and on publicizing abroad through press channels Communist developments in this country. At same time we should carefully avoid any overt acts to which Guatemalan delegates at conference could point as evidence of persecution of Guatemala or intervention in its affairs. We should also avoid emphasis on fruit company problems since these might cause confusion among Latin American delegates as to true nature of our differences with Guatemala. We should at same time step up locally . . . anti-Communist propaganda. . . . Krieg referred to this matter in letter of December 3[3] to John Fisher.

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[1] *Supra.*

[2] Reference is to Resolution XCIII, the "Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism", adopted by the Tenth Inter-American Conference; for text, see *Tenth Inter-American Conference, Caracas, Venezuela, March 1–28, 1954: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 156–157, or the Department of State *Bulletin*, Apr. 26, 1954, pp. 638–639.

I propose that between now and time of conference we carefully work out program designed to create situation in which non-Communists whether now supporting or opposing government would feel forced to coordinate their organizations and take action against government and I suggest Department and Embassy give special attention to determination feasibility and manner and time of application of following steps as part of an overall program:

1. Withdrawal of US Army[4] and air missions from Guatemala. Effect of this announcement would be greatly heightened if made more or less simultaneously with announcements of military assistance pacts between US and neighboring Central American countries.

2. Announcement of withdrawal, effective June 30 of FOA personnel from construction of Roosevelt Hospital and from agricultural mission, not including those on Entrerios Rubber Experiment Project which is important to us.

3. Announcement of cancellation within six months of RFC's contract with UFCO for growing abaca in Guatemala.

4. Denunciation of reciprocal trade treaty[5] with Guatemala.

5. Campaign through columnists and radio commentators for voluntary refusal by American coffee importers to buy Guatemalan coffee. Even though purchases did not decrease, campaign would give local growers increased sense of urgency and stimulate their willingness to aid anti-government movement.

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[3] Not found in Department of State files.

[4] A memorandum of conversation at the Secretary's staff meeting, held in the Secretary's office, Nov. 20, 1953, 9:15 a. m., by Director of the Executive Secretariat Scott, reads in part as follows:

"8. *Guatemala*

"The Under Secretary stated that he is getting a paper from Mr. Wisner today concerning CIA's recommendation as to whether or not we should remove our military mission from Guatemala. It was his own personal belief at the present time that it served no useful purpose in keeping a military mission to a government that was Communist-dominated and in which the Army was evidently loyal to that government." (Secretary's Staff Meetings, lot 63 D 75)

The Secretary of State's staff meetings were attended usually by the Under Secretary of State, the Deputy Under Secretary of State, Assistant Secretaries of State, and certain office directors. The Secretary of State presided at these meetings.

[5] Reference is to the Reciprocal Trade Agreement, signed at Guatemala City, Apr. 24, 1936, and entered into force, June 15, 1936; for text, see Department of State Executive Agreement Series (EAS) No. 92, or 49 Stat. (pt. 2) 3989.

6. Placing of impediments in way of issuance of export licenses on shipments of goods from US to Guatemala. Form of these impediments must be determined in light of attitudes shown at Caracas conference, and could range from general refusal of licenses to consistent delays in their issuance, particularly for road and port building equipment on which Guatemalan Government is especially interested.

7. Final or partial suspension gasoline shipments to Guatemala.

With these proposals as starting point for study, and without necessarily approving all of them or excluding others, Department and Embassy should be able to work out program which while flexible enough to allow for adjustments to developments at Caracas, should be concrete enough to permit its implementation promptly upon closing of conference. Program should be applied in progressive steps which would build up increasing sense of urgency among non-Communist Guatemala.

Program should be undertaken with full realization it could provoke Guatemalan Government to swing sharply to left, to assume dictatorial power, to seek to win mass support through strongly nationalistic stand, and to expropriate or take other extreme reprisals against American companies in Guatemala. Guatemalan Government could be expected to make international issue of intervention, might ask my recall or even break off diplomatic relations with United States. It is quite conceivable it would lead to considerable bloodshed.

Nevertheless, implementation some such plan should not be deterred by these possible unpleasant consequences since continuance of present regime would also lead to most of them though at a slower pace and at the convenience of the Communists.

PEURIFOY

611.14/1–1654

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] January 16, 1954.

Subject: Farewell Call on President by Guatemalan Ambassador [1]

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[1] In a briefing memorandum for the President concerning Ambassador Toriello's visit, dated Jan. 15, 1954, Under Secretary of State Smith stated in part the following:

"Last month President Arbenz told Ambassador Peurifoy Guatemalan Communists are 'honest', follow Guatemalan not Soviet interests, and visit Moscow to study Marxism, not to get instructions. Guatemalan Communists are in fact disciplined agents of international Communism, preaching authentic Soviet-dictated doctrine and openly affiliated with numerous international Communist labor and front groups.

"We have repeatedly expressed deep concern to the Guatemalan Government because it plays the Communist game. Our relations are further disturbed because of the merciless hounding of American companies there by tax and labor demands, strikes, and, in the case of the United Fruit Company, inadequately compensated seizures of land under a Communist-administered Agrarian Reform Law." (Eisenhower Library, Eisenhower papers, Whitman file, International Series, "Guatemala")

Participants: The President
Señor Dr. Don Guillermo Toriello, Ambassador of Guatemala
Mr. John M. Cabot, Assistant Secretary

The Guatemalan Ambassador called on the President to say farewell before returning to Guatemala to become Foreign Minister.

Following an exchange of courtesies, the President made a reference to relations between the United States and Guatemala. The Ambassador seized on this to peddle to the President his oft-told tale of how Guatemala is a victim of "calumny". He said there were communists in Guatemala but they occupied only a few insignificant positions in the Government. Guatemala had always suffered from dictators but since 1944 it had had a democratic government which was undertaking much needed reforms, notably the agrarian reform.

The President said we had no wish to dominate any country. We regarded our Latin neighbors as sovereign equals, and did not try to interfere in their affairs. In consequence they had always been independent. We hated communism. The President contrasted the status of our neighbors with that of Poland and Czechoslovakia and the Baltic states. Soviet communism was the worst dictatorship the world had ever known, and we were determined to block the international communist conspiracy. We certainly had the impression that the Guatemalan Government was infiltrated with communists, and we couldn't cooperate with a Government which openly favored communists.

The Guatemalan Ambassador pleaded for greater cooperation. The armed forces had not been infiltrated, yet they couldn't get ammunition. The Guatemalan airline couldn't get a permanent contract. The effect of all this was to help the communists. If we helped the Guatemalans more, they would soon get rid of the communists.

The President said that we really couldn't help a government which was openly playing ball with communists. The people of the United States hated communism and if we helped them there would be a coup against him (this laughingly).

The Ambassador said that the real question was not that of communists in the Guatemalan Government, but of the monopolistic position of the United Fruit in the country. The Ambassador brought out a little map of Guatemala to show the United Fruit's stranglehold on ports, railways, etc. He went into his usual discreetly distorted indictment of the United Fruit and insisted that this, and not communism in the Government, was the source of the difficulties in relations between the United States and Guatemala. He also brought out two scrapbooks of anti-Guatemalan articles published in the U.S. press.

The President said that we certainly wanted no more than justice for any American companies operating in Guatemala. We would be agreeable to having an international tribunal decide what the rights of the controversy were. Moreover, we realized that contracts made many years ago were subject to revision under changing circumstances.

The Ambassador continued to harp on the line that the United Fruit, and not the the few Guatemalan communists, were the source of our difficulties in relations. Mr. Cabot interjected that avowed communists occupied key positions in the National Agrarian Department, the official press and radio, and other government agencies, and that the highest officials of the Guatemalan Government were openly supporting them and listening to their advice.

The Ambassador continued to press his argument with skill. He particularly mentioned that Sullivan & Cromwell, the Secretary of State's former firm, represented the United Fruit. The President by this point had risen to indicate the interview was ended. Mr. Cabot, thinking the Ambassador had charged that he had stock in the United Fruit, pointed out that this was untrue.

The President asked about the charges against the United Fruit. Mr. Cabot said there were certainly two sides to that question. The Ambassador said that they paid no taxes, just one cent per stem on bananas. He also mentioned that no immediate compensation had been given for the United Fruit lands seized. The President suggested that perhaps this could be settled by an international judgment, perhaps headed by a Latin American. Mr. Cabot pointed out that we had proposed action along these lines, but Guatemala considered this a matter of sovereignty.

The entire conversation, which lasted half an hour, was in personally friendly terms. The Ambassador presented his case very persuasively—with skillful emphasis and suppression. The President made a very able and convincing exposition of our thesis that the issue is communism in the Guatemalan Government, not the United Fruit question, and that the latter can be decided by international decision.

714.00/2-954: Telegram

The Secretary of State to the Embassy in Guatemala[1]

CONFIDENTIAL WASHINGTON, February 20, 1954—7:46 p.m.
PRIORITY

387. Though unconvinced sincerity practicality Foreign Minister's proposal to refer problems of American companies to neutral commis-

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[1] Drafted and signed by Mr. Leddy.

sion (Embtel 308, Feb 9)[2] Department agrees positive response desirable prior Toriello's departure for Caracas Conference and recommends following for oral presentation:

(1) Department interested in most feasible methods of settling these problems but regards direct negotiations between companies and Guatemalan Government as normal means to be exhausted before considering any other action; (2) companies always disposed discuss conflicts or any phases their contracts, and any justifiable modifications, as has been demonstrated in negotiations with other Latin American governments; (3) corresponding Guatemalan disposition toward settlement could be shown in pending disputes, solution of which could better relations and define any issues not soluble by negotiations; and (4) details of Minister's proposal (per your draft) desire by Department for further consideration, as matter viewed of high but not primary importance in our relations.[3]

DULLES

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[2] The referenced telegram, from Ambassador Peurifoy, reads in part as follows:

"Toriello said he had made suggestion to President Eisenhower which he hoped I would help to carry forward. This was that a neutral commission be appointed to investigate whether contracts between American companies and Guatemalan Government were in line with modern concepts of such relationships and whether companies were making adequate contribution to government and national economy. He said the President had received idea favorably and that Arbenz had subsequently approved it." (714.00/2–954).

[3] In telegram 345, from Guatemala City, dated Feb. 23, 1954, Ambassador Peurifoy reported that he had suggested to Foreign Minister Toriello that his proposal to refer problems of American companies to a neutral commission be reduced to writing, and that the Foreign Minister had replied that he would consider the matter further upon his return to Guatemala from the Caracas Conference (714.00/2–2354).

414.118/4–1454: Telegram

The Acting Secretary of State to the Embassy in Portugal[1]

SECRET WASHINGTON, April 14, 1954—7:45 p.m.

323. In view sustained frantic efforts Guatemalan emissaries procure arms, ammunition or implements of war including airplanes, half-tracks and artillery from Western Europe, as already reported by Department to various missions, Department increasingly concerned possibility Guatemala can evade strict U.S. embargo exports of arms through procurement from European sources. Reports storage of arms by political groups or communist cells indicate arms intended to counterbalance anti-communist elements in Guatemalan Armed Forces or for

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[1] Drafted and signed by Mr. Leddy, with the assistance of Orray Taft of the Office of Munitions Control; sent also to Madrid, Paris, Rome, Bern, Brussels, The Hague, Stockholm, London, HICOG at Bonn, and USPOLAD at Trieste.

use against other countries. Current tension Central America due attempted assassination Somoza may create communist opportunity suppress anti-communist Guatemalan forces or by infiltration attempt overthrow anti-communist Central American governments.

In view desirability our position previously notified in individual cases be understood by other governments as a general application, inform appropriate officials government to which you are accredited Department's concern this danger to free world and solicit their suggestions for measures to be taken promptly (such as alerting port authorities) to tighten arms export and transit controls in order eliminate possibility clandestine or concealed shipments. Stress that we would greatly value their active cooperation in view current instability Central American area and preponderance of Guatemalan strength if supported by adequate matériel. Department would appreciate Govt. reaction soonest.

SMITH

714.00/4–1954

Memorandum by John W. Fisher of the Office of Middle American Affairs to the Assistant Secretary of State for Inter-American Affairs (Holland)

SECRET [WASHINGTON,] April 19, 1954.

Subject: Briefing on Guatemala

The attached National Intelligence Estimate on Probable Developments in Guatemala[1] was approved eleven months ago. Events occurring in the interim have tended to confirm the validity of the conclusions presented in the paper as they relate to future developments in that country.

During the past year, Communist strength and influence in Guatemala has continued to grow without effective opposition. Party membership is now estimated at between 2,000 and 3,000. Communist leaders have strengthened their control over organized labor, causing destruction of a fledgling anti-Communist labor group and drawing the large Communist-influenced peasant federation closer to the Communist-run labor federation. They continue to be ascendant in the Administration political coalition, supplying four of the ten party delegates who regularly advise Arbenz on national policy. The other six delegates either support or tolerate the Communists. (The Cabinet, which Government propagandists frequently claim contains no Communists, has an insignificant role in policy making.) Arbenz defended the Guatemalan Communists so strongly in his March 1 speech to the Congress that his alliance with them appears irrevocable, so far as he is concerned. The predominant influence of the Communists in Agrarian Reform, the central program of the Administration, has further increased their political strength and laid the basis for development of a Communist-led peasant faction, inured to violence, which could give persistent trouble to any future government disliked by the Communists.

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[1] Not found with the source text; reference is to NIE–84, May 19, 1953, p. 1061.

The Guatemalan political opposition, both at home and in exile, is numerous but hopelessly disorganized and demoralized. In itself it does not constitute a significant threat to the Arbenz regime, but will continue to be persecuted by the Government as long as it retains any potential for action.

Although Arbenz is only halfway through his six-year term of office, maneuvering has already begun among Administration figures who hope to succeed him, with some potentially unsettling effect.

Despite numerous expressions of irritation by Guatemalan Army officers over U.S. refusal to supply them arms because of the Communist situation, there is no evidence that this discontent is being focused on Arbenz, who retains the loyalty of the most influential elements of the Army as well as the power to purge any officers found to be disloyal.

The adoption of the anti-Communist resolution did not weaken Arbenz' position with respect to the Army or to any other politically important group.

Also attached are two telegrams[2] from Ambassador Peurifoy, one containing his appraisal of Arbenz and the other outlining some suggested policy recommendations.

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[2] Not found with the source text.

S/S–OCB files, lot 62 D 430, "Guatemala"

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Acting Secretary of State[1]

CONFIDENTIAL WASHINGTON, April 20, 1954.

Subject: Possible Congressional Inquiry into Communism in Guatemala

Discussion:

Representative Charles J. Kersten (R., Wisconsin) has suggested to General Cutler of the NSC the possibility of a Congressional inquiry by his House Select Committee on Communist Aggression, into Communism in Guatemala. Mr. Kersten states that his Committee cannot undertake this inquiry until after they visit Europe in June, but a newspaper man, Mr. Pat McMahon, has prepared for him a proposed press release which Mr. Kersten implies he might wish to issue in the near future. The text of the proposed press release is attached to his letter of April 15 to General Cutler (Tab A).[2]

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[1] Drafted by Mr. Woodward.

Recommendation:

That you request General Cutler to inform Representative Kersten that a Congressional inquiry of the nature he suggests might prove to be a very useful "sounding board" for public dissemination of information concerning Communism in Guatemala. Since however, the Committee cannot undertake the inquiry until after June, and since there are possibilities of new developments in the Guatemalan situation between now and the end of June, we would appreciate it if Mr. Kersten would *defer* any announcement with respect to a possible inquiry until we can review the situation with him just before his Committee departs for Europe.[3]

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[2] No attachments were found with the source text.

[3] In a memorandum to Under Secretary Smith, dated May 6, 1954, Robert Cutler, Special Assistant to the President, stated in part the following:

"This morning I have had a very good talk with Congressman Kersten, who was, as always, most understanding and cooperative.

"We discussed the Caracas Conference, the position taken by the Secretary, and the general situation in Central America, and related matters. He accepted my suggestion that his Sub-Committee defer any announcement relative to Guatemala until the Members of the Sub-Committee return from a proposed trip through Europe. At the present time, their expectation is to return from this trip in July. I suggested that when Congressman Kersten had returned, he might get in touch with me again, and we would take a fresh reading with you, Allen Dulles, and the OCB, on this situation." (S/S–OCB files, lot 62 D 430, "Guatemala")

Eisenhower Library, Hagerty papers

Excerpt From the Diary of James C. Hagerty, Press Secretary to the President

[WASHINGTON,] April 26, 1954.

Monday, April 26—Legislative leaders meeting at 8:30—V.P., Knowland, Ferguson, Millikin, Bridges; Speaker, Halleck, Arends, Allet; staff. The President started the meeting with a discussion of *Guatemala and Indo China—On Guatemala* the President said that it was the usual Red penetration with a small minority which is gradually taking over the country. He said that he gave the present Foreign Minister, when he was Ambassador here "unshirted hell, but he's playing along with the Communists". He said that the Caracas decision had been helpful in stopping Communism in this hemisphere and that consequently we would have all Latin and South American countries helping us "whenever the Reds make a move"—he said that we have a good man in Guatemala and that he is watching the situation very closely and giving us constant reports—In Guatemala, however, the Reds are in control and they are trying to spread their influence to San Salvador as a first step of the breaking out in Guatemala to other South American countries.

[Here follows discussion concerning Indochina.]

714.00/5–1054

Minutes of a Meeting, Held in the Office of the Assistant Secretary of State for Inter-American Affairs (Holland), May 10, 1954[1]

TOP SECRET

OAS Action Against Communism in Guatemala

1. Mr. Holland called a meeting in his office at 5:30 p.m. at which the following were present with him:

E. G. Cale, Director, AR
R. S. Atwood, Director OSA
C. R. Burrows, Director MID
Ambassador John Dreier, OAS
E. A. Jamison, Deputy Director, AR
R. G. Leddy, Officer in Charge MID/P

2. Mr. Holland stated that he had been authorized by the Secretary to move to obtain OAS action against the Communist problem in Guatemala. Any step taken would have its disagreeable and disadvantageous aspects but to do nothing would be to admit that we are powerless to solve the problem; in the present world situation this would be intolerable. We should move toward application of the Caracas Resolution[2] to Guatemala, along the following lines:

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[1] Drafted by Mr. Leddy.

[2] Apparent reference to Resolution XCIII; see footnote 2, p. 1093.

I. Take straw vote on resolution condemning Guatemala and applying sanctions.

(*a*) Handle this approach so that if we abandon the project there will be no loss of prestige.
(*b*) Beginning with Brazil and the more important countries approach each one informally, submitting summary of evidence.
(*c*) Try to conclude this stronghold within ten days.

II. If straw vote indicates we might succeed at OAS meeting, call in Walter Donnelly to take charge of preparations and of meeting.

(*a*) First guarantee any doubtful votes that are necessary to complete requisite two-thirds majority.
(*b*) Then try to get as many additional votes as possible.
(*c*) By June 15 determine, if possible, whether we are strong enough to call an OAS meeting.

III. During next ten days I should make strong speech on Guatemalan communism. We should get other speeches on the Hill and in other areas of the Government to demonstrate that United States determination to remedy problem extends throughout the Government.

Point Three above is undecided.

3. A breakdown of the list of American Republics, according to positive, doubtful and negative votes, was reviewed; it is hereto attached.[3] It was decided to make the first approach with Brazil, which was separately listed as "probable with persuasion". Ambassador Muniz would be asked to call on the Secretary on the following afternoon, when he would be presented with our viewpoint and asked to go to Rio to get the concurrence of the Brazilian Government. Mr. Leddy was directed to prepare the brief[4] for the Secretary.

4. Mr. Atwood said that Venezuela would be classified doubtful because of the attitude of Foreign Minister Otañez. Brazil will have to be "sold".

5. It seems agreed that former Ambassador Walter Donnelly would be the ideal choice to undertake leadership of this mission for the Department. A cable[5] was thereupon drafted and sent to Chargé Bernbaum at Caracas to discuss the proposition with Mr. Donnelly at once.

6. The organization of the evidence for the case to be presented against Guatemala was then discussed. It was decided that Second Secretary John C. Hill should be called from Guatemala City to un-

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[3] Not found with source text.

[4] Reference is to a memorandum by Assistant Secretary Holland to the Secretary, drafted by Mr. Leddy and dated May 11, 1954, not printed (714.001/5–1054).

[5] Reference is to telegram 289, to Caracas, dated May 10, 1954, not printed (363/5–1054).

dertake the preparation of this material, and a cable[6] was sent to Ambassador Peurifoy directing the detail of Mr. Hill to the Department, to depart from Guatemala City on the following day. Mr. Czayo, telephoned at his home, advised that travel orders could be issued after the cable is sent.

7. Mr. Holland discussed the situation in Honduras, pointing out that present developments are a key to the case against Guatemala, citing the expulsion of the three Guatemalan Consuls. A complaint against Guatemala in the OAS would best come from Honduras. We need more information from Honduras.

8. In addition to the action with Brazil, it was decided that inquiries should go to our Ambassadors in Bogotá, Lima, Santiago de Chile, and Buenos Aires, asking their advice on how the Department should best proceed with these Governments. While Mr. Holland was temporarily called from the room, it was decided that this cable should await the outcome of the visit of Ambassador Muniz on the following afternoon.

8 [9]. Mr. Holland read from a letter[7] he had prepared to send to Ambassador White in Mexico, also soliciting his advice on how to proceed. It was agreed the letter should be sent. Letters to other Ambassadors were considered impractical due to the time required for courier delivery, too long a delay before the June 15 deadline. Mr. Holland said that he would discuss again whether or not it would be feasible for him personally to make a trip to Mexico City to talk with President Ruiz Cortines.

10. Mr. Holland said that it would be necessary to keep minutes of these meetings,[8] in order to record what was being accomplished and to be accomplished. Mr. Leddy was directed to prepare the minutes of this meeting.

11. In reply to several points of difficulty to be encountered in obtaining the votes and in making the action of the OAS effective, Mr. Holland said that the Department would not, of course, proceed until

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[6] Reference is to telegram 852, to Guatemala City, dated May 10, 1954, not printed (110.24/5–1054). Mr. Hill was detailed to the Department of State for two weeks; he departed from Guatemala on May 11.

[7] Not identified.

[8] The meetings, of which this was the first, were held frequently during May, June, and early July for the purpose of discussing and implementing on a daily basis strategy relating to possible OAS action against Guatemala. The group, known in the Department as the "Guatemalan Group," was gradually enlarged to include additional officers from within the Bureau of Inter-American Affairs, former Ambassadors Donnelly and Pawley, and a representative from the CIA. Mr. Holland presided at the meetings.

it was sure of a two-thirds vote and would handle the matter in such a way that it could withdraw should it prove impossible to obtain such two-thirds vote.

12. Ambassador Dreier pointed out that Article 53 of the UN Charter[9] requires that enforcement of any regional agreements shall only be taken with the concurrence of the UN Security Council; the USSR could therefore veto the OAS action. Mr. Holland replied that this would clearly stamp Guatemala as a Soviet Satellite and would make clear that the will of the OAS had been thwarted by the USSR. Mr. Atwood suggested that the reference to the UN Charter be incorporated in the brief for the Secretary's meeting with Ambassador Muniz as the latter is an expert on the UN.

13. Mr. Leddy mentioned once the United States takes Guatemala before the OAS it is quite likely that the Guatemalan Government will move to nationalize all American property in Guatemala; this is chiefly owned by three companies, United Fruit, American and Foreign Power and the IRCA. After pointing out that their property stands to be nationalized in any case, Mr. Holland said that it would be good to inform these companies in advance of our action.

The next meeting was called for the following afternoon at 5 p.m.[10]

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[9] For text of the UN Charter, signed at San Francisco, June 26, 1945, and entered into force for the United States, Oct. 24, 1945, see Department of State Treaty Series (TS), No. 993; or 59 Stat. (pt. 2) 1031.

[10] Minutes of the referenced meeting, drafted by Mr. Leddy and dated May 11, 1954, are not printed (714.00/5–1154).

Editorial Note

In a memorandum to the President, dated May 11, 1954, Secretary Dulles commented on unsettled labor conditions in Honduras, reports of suspicious movements of planes and men from Guatemala to Honduras, and the preparation of a plan for providing direct military assistance to Honduras, in the event that the Honduran Government requested such assistance under the provisions of the Rio Treaty. The memorandum is printed on page 1303.

714.00/5-1154

Memorandum of Conversation, by the Secretary of State [1]

SECRET [WASHINGTON,] May 11, 1954.

Subject: Situation in Guatemala

Participants: The Secretary
Ambassador João Carlos Muniz of Brazil
Mr. Holland, ARA

Mr. Dulles told the Ambassador that he had come to the conclusion that the time had arrived when we must consider joint action regarding the Guatemalan problem. He said that it appeared to us that the penetration of communism in that Government was steadily extending and that it appeared to be spreading to surrounding countries. He pointed out that there were aspects of the Honduran strike which seemed to link it with Guatemala. He said that he did not want to invoke the consultative procedure without first consulting fully with the Government of Brazil and asked the Ambassador whether he would be willing to go to Rio to submit the problem to his Foreign Minister [2] and his President.[3]

The Secretary said that we must realize that it will be impossible to produce evidence clearly tying the Guatemalan Government to Moscow; that the decision must be a political one and based on our deep conviction that such a tie must exist.

The Ambassador said that he would be glad to go, and asked that we prepare for him a statement of evidence [4] which he might submit to his Government.

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[1] Drafted by Assistant Secretary Holland.

[2] Vicente Rão.

[3] Getúlio Dornelles Vargas.

[4] Apparent reference to a paper, entitled "Soviet Communism in Guatemala," drafted by Mr. Hill, dated May 14, 1954, and handed to Ambassador Muniz on that date, not printed; a copy is attached to 714.001/5-1854.

714.00/5-1454

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

SECRET

[WASHINGTON,] May 14, 1954.

Subject: Recommendation that the U.S. Invoke Consultative Procedure under Rio Treaty to Consider Problem of International Communism in Guatemala.[2]

It is recommended that promptly the United States invoke the Organ of Consultation specified in Article VI of the Rio Treaty to consider the problem of the penetration of Guatemala by International Communism.

The Problem

From time to time around the world frontal tests of strength between the force of the free nations and that of the Communist organization arise. One occurred in Korea. Another is in progress in Indochina. A less publicized collision is now reaching its crisis in Guatemala.

In this last situation the test is whether the world Communist organization has the strength to establish a satellite nation in this hemisphere and, conversely, whether the free nations have the power to resist that attempt.

Importance of Problem

This contest is of crucial importance in the global struggle between free nations and the Communist forces. The reason is twofold.

1. It has been asserted that Moscow cannot establish a satellite state save where the weight of the Red Army can be brought to bear directly or indirectly. Obviously, Russia recognizes, therefore, that establishment of a satellite state in this hemisphere would mark a victory which would strengthen the power of Communist forces in every free nation of the world. Establishment of a satellite state in this hemisphere, and particularly so close to the United States, would enable Russia to claim throughout the world that the power of Communism lies in its appeal to men's minds and not in fear or force.

2. The greatest significance of the Guatemalan test lies in its effect on all regional organizations similar to the Organization of American States.

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[1] Drafted by Mr. Holland.

[2] On May 12, 1954, Edward A. Jamison, Deputy Director of the Office of Regional American Affairs, forwarded to Assistant Secretary Holland a memorandum prepared by Marjorie Whiteman of the Office of the Legal Adviser, commenting in detail on the authority of the Executive Branch to take action against Guatemala under the Rio Treaty, and a covering memorandum discussing enforcement action under the treaty's provisions. (362/5-1154) Additional documentation on the legal aspects of implementing the Rio Treaty with respect to Guatemala is in file 362.

Because of the Soviet veto in the United Nations free states have had to rely upon such regional organizations as the vehicles for their fight against Communism.

Free states throughout the world are relying in their fight against International Communism upon the collective security afforded by these regional organizations. This grand strategy gives small nations exposed to invasion the courage to resist. By combining the individual strength of separate states into a massive aggregate it becomes possible to match and surpass the force which Russia can bring to bear at any time and at any point in the world. Obviously, a major policy of this Government is to bring all of the free states of the world into strong and determined regional organizations, contributing to them the maximum force and purpose of which we are capable.

Russian leaders see clearly the effectiveness of collective effort through regional organizations. For years, therefore, a major purpose of Moscow has been to weaken and destroy the Organization of American States, the oldest and one of the most effective of the regional organizations.

A reiterated and fundamental purpose of the Organization of American States is to defend this hemisphere, and particularly at this time to defend it against International Communism. Soviet leaders know that establishment here of a satellite state will demonstrate that the world's oldest regional organization is helpless to stop Communist expansion. If it can be demonstrated that the Organization of American States cannot achieve its most basic purpose then the Organization will become progressively discredited and useless.

For this reason the world Communist organization has expended fantastic effort and wealth in its attempts to establish a satellite state in the Western Hemisphere.

Their efforts to achieve this goal have been strengthened by the fact that this is the only area in the world in which the United States has formally renounced the right to take unilateral measures to resist Communism. While the Red Army cannot support Russia's effort to convert Guatemala into a Communist state, the United States Army cannot oppose it. Russia can bring to bear the force and the violence of its trained agents, but the United States in resisting that effort must respect its treaty obligations against intervention. This creates a serious test of the efficacy of the Organization of American States.

Why Moscow Chose Guatemala as a Testing Ground

The selection of Guatemala as the place for Moscow's major effort to establish a satellite state was partly fortuitous. For years Russia has, as you know, been carefully probing in the American states. For a time these efforts were concentrated on larger states such as Brazil and Chile. There, they achieved considerable initial success but were finally defeated because, as here, the governments and economies they sought to dominate were strong. Russia's efforts then became concentrated on the Central American and Caribbean states. The reasons are obvious. Their size and comparative weakness made them particularly susceptible. Because of their proximity to the Panama Canal domination of any one would give Russia an important military gain.

Guatemala afforded peculiar advantages because there the Communists could disguise their efforts as a genuinely national effort directed against the United Fruit Company and other large United States interests in the country. Actually, the United States would go no further in defending the interests of United States enterprises in Guatemala than it has gone and will always go anywhere in the world. This Government's efforts on behalf of United States interests in Guatemala have been limited to conventional representations to the governments asking that United States interests be granted due process of law and adequate compensation for expropriated properties. Nevertheless, the Communist organization has done a rather effective job of persuading public opinion that the real purpose of our efforts to prevent their penetration is the defense of United States enterprises there.

The Present Situation in Guatemala

In any analysis of the situation in Guatemala it must be recognized at the outset that evidence that the Communist program in Guatemala has been organized and directed in the world capitals of Communism, and that Communism in Guatemala is a part of the world apparatus, must be largely circumstantial. I doubt very much that there is in this hemisphere any writing which would demonstate these conclusions. On the other hand, to our students of the international Communist organization it is abundantly clear that what has happened in Guatemala is a part of Moscow's global strategy.

All of the signs which have identified similar occurrences elsewhere in the world are apparent in Guatemala. The methods of achieving initial penetration and of enlarging and strengthening those first footholds are the same. The training of leaders and the development of programs through exchanges of persons in strategic positions is identical. The extensive use of popular front organizations effectively controlled by a handful of experts is the same. We also have the reliable evidence of a blind unwavering adherence to the Communist Party line as enunciated in Moscow. As elsewhere in the world the agents of Communism in Guatemala have immediately adopted every public attitude announced from Moscow, regardless of the inconsistencies and local embarrassments which have resulted. As always in these stages of the program the Communist organization has been careful to preserve the appearance of minority representation in the Congress and other comparable organizations. At the same time, they have here, as elsewhere, succeeded in substituting small informal Communist controlled councils for the lawful policy-making bodies.

Attached hereto is a brief,[3] summarizing the evidence described above.

The people of Guatemala are overwhelmingly Catholic and anti-Communist. However, they are unorganized and entirely helpless to resist the well-planned and executed campaign directed against them from Moscow. It was precisely for the protection of a small nation in such a situation that the policy of collective security through regional organizations was devised.

Alternative Courses of Action

The three most obvious courses of action for this Government are the following:

1. We can continue to express our concern about the rapid expansion of international Communism in Guatemala. This course has been entirely ineffective thus far, and it seems certain that it will continue to be.
2. We can notify the other American States of our intention to move unilaterally in Guatemala to defeat Moscow's purpose there. Such a course of action would be inconsistent with our treaty obligations and the firm policy which we have followed in this hemisphere for more than 20 years.
3. We can attack the problem through the Organization of American States, utilizing the mechanisms specifically designed for problems of this nature. In my judgment the latter course is clearly that which we must follow.

It is my conclusion and that of the experts who are following this problem that, while there are some anti-Communist elements left in Guatemalan political institutions, they have lost their independence of action. These anti-Communist elements can be eliminated by the Communists whenever they consider it desirable. Therefore, we must recognize that the political institutions of that American State are now dominated and controlled by the international Communist organization.

Therefore, I recommend to you that this Government request that the Organ of Consultation of the Organization of American States be requested to meet and consider this problem. Because of the great rapidity with which anti-Communist elements are being eliminated from all political institutions, I feel that this move should be taken with the greatest urgency.[4]

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[3] No attachment was found with the source text.

[4] Secretary Dulles apparently took no action on Assistant Secretary Holland's recommendation at this time; however, see the notes of the meeting of the Guatemalan Group held at the Department of State, June 25, 1954, p. 1186.

Editorial Note

On May 17, 1954, Assistant Secretary Holland forwarded a memorandum to Secretary Dulles recommending that the Secretary request "Congressional authorization enabling the President to put into effect any or all of the measures specified in Article 8 [of the Rio Treaty] which are approved by the Organ of Consultation and with respect to which he may not now have authorization." A handwritten notation on this memorandum, evidently by the Secretary, reads as follows: "Approve of drafting the bill—Then decide". (362/5–1154)

On June 8, however, in another memorandum to the Secretary, Assistant Secretary Holland stated the following: "Even though such authorization apparently is no longer necessitated by the Guatemala problem, it seems highly desirable that legislation under which the U.S. could act promptly to comply with OAS action under the Rio Treaty be obtained, in order that there will be no doubt of our ability to carry out decisions important to the maintenance of peace and security of the Hemisphere under the regional security system." He recommended that the Secretary approve submission to the National Security Council of a draft Congressional joint resolution containing an authorization similar to that in the earlier draft bill, for review prior to its presentation in Congress. (362/5–1154)

In a memorandum responding to the Assistant Secretary, dated June 11, Secretary Dulles stated that he did "not feel that a case can be made out for the necessity of Article 2 authorizing the United States" to employ its armed forces pursuant to Article 3 of the Rio Treaty, he doubted whether NSC action was required, and believed the question of timing was important, especially if the proposed joint resolution was presented in Congress before the OAS meeting. "If so," Dulles commented, "may it not be construed as taking for granted the results of this meeting? If we wait until the meeting is over, the time for Congressional action is pretty short. This is a certain dilemma we face." (362/5–1154) Assistant Secretary Holland pursued the question of Congressional authorization for action under the Rio Treaty through June and July, but Department of State files contain no record indicating that the Secretary ever approved submission of a bill or joint resolution requesting such authorization.

414.498/5–1854

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

SECRET [WASHINGTON,] May 18, 1954.

Subject: Action to Prevent Delivery of Czech Arms to Guatemala

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[1] The source text bears the following handwritten notation initialed by Assistant Secretary Holland: "Discussed orally with Sec'y on 5–18–54."

Discussion:

The S.S. *Alfhem*, a Swedish-owned and Swedish flag vessel, arrived at Puerto Barrios, Guatemala on May 15, 1954 from Stettin with 2,000 tons of Czechoslovak arms for delivery to the Guatemalan Government. Unloading (estimated at five to ten days) was commenced on Saturday and renewed on Monday, the 17th; 1800 tons being still aboard last night. The dock area was heavily guarded by Guatemalan soldiers, and high military officers, including the Minister of War,[2] were present. The first train load from the cargo reached Guatemala on seven flat cars and three box cars last night. The kind and quantity of arms is yet unknown. Crew members report two more ships will come from Stettin for Guatemala.

Because predominant military power in the hands of the Guatemalan pro-Communist Government would threaten the peace of Central America, we moved at once to prevent delivery. I telephoned Ambassador Cabot[3] in Stockholm on the 16th, but the Swedish Government then stated the ship was chartered to E. E. Dean of London. Mr. Butterworth[4] asked the Foreign Office yesterday to have the ship ordered to leave port at once without further unloading, and Sir Roger Makins[5] was informed yesterday afternoon. In London we offered to indemnify the charterer against loss. Dean is now disclosed as a dummy in the transaction, holding a "straw charter" in order to justify transfer of Czech sterling funds to Sweden. One Christensen of Stockholm, agent for Czekofracht, the state transport monopoly, holds control over the charter, and Dean has no control, according to the British and our Embassy in London.

I have again asked our Embassy in Stockholm to get the Swedish Government to get the captain to stop unloading, and meanwhile to have the insurance cancelled as a means of getting the ship out of port. Christensen has stated his bill of lading was for "laboratory equipment and optical supplies" and that he did not know of any arms cargo. I have also asked Acting Defense Secretary Anderson to institute action to identify the two additional ships.

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[2] Apparent reference to Col. José Angel Sanchez, Guatemalan Minister for National Defense.

[3] Mr. Cabot was appointed Ambassador to Sweden on Mar. 1, 1954; he arrived in Stockholm on Apr. 29, and presented his credentials on May 6.

[4] W. Walton Butterworth, U.S. Minister, London.

[5] British Ambassador to the United States.

714.00/5-1854

Memorandum by the Assistant Legal Adviser for International Claims (English) to the Assistant Secretary of State for Inter-American Affairs (Holland)

SECRET [WASHINGTON,] May 18, 1954.

I have considered the question of recommending that Congress be asked immediately to enact legislation providing that when there is reason to believe that a vessel within the area defined in Article 4 of the Rio Treaty of 1947, is carrying elements of atomic or hydrogen bombs or other implements of war, which may be used in such a way as to endanger the peace of America [or in the alternative, in such a way as to endanger the security of the United States or its possessions or the Canal Zone],[1] the President be authorized to take measures to stop, divert and detain such vessel.

I am inclined to think that the matter of procuring legislation with respect to vessels carrying elements of atomic or hydrogen bombs should be most carefully considered before recommending its enactment. While legally, it might be justified on grounds of the national security, it is to be borne in mind that such legislation would create a precedent for similar action by other Powers with respect to shipments which might be made by the United States at least to some of the NATO or other countries.

If the present shipments of implements of war bound for a Central American country, constitute an imminent threat to the security of the United States, the United States could seize or detain the vessels, taking the consequences of charges of violation of the freedom of the seas, violation of the sovereignty of the country in whose port they might be found, and even of a risk of war.

If the present shipments of implements of war constitute merely a threat to the peace of the Hemisphere, affecting the sovereignty or political independence of an American State, the pertinent provisions (Arts. 6 and 8) of the Rio Treaty of 1947 should be invoked.

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[1] Brackets in the source text.

414.008/5–1954

Memorandum by the Assistant Legal Adviser for International Claims (English) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

SECRET [WASHINGTON,] May 19, 1954.

Subject: Controls Over Foreign Ships Carrying Munitions to Guatemala

You have asked whether there is existing legal authority pursuant to which the Executive could take action respecting foreign ships which carry munitions to Guatemala. Particularly you have asked if there is any legal authority pursuant to which the Executive could deny United States port privileges to such foreign vessels, and prevent the use of the Panama Canal to such vessels.

Section 5(b) of the Trading With the Enemy Act, as amended (Title 50, app. U.S.C.) provides as follows:

> "(b) (1) During the time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, and under such rules and regulations as he may prescribe, by means of instruction, licenses, or otherwise—
>
> (A) investigate, regulate, or prohibit, any transactions in foreign exchange, transfers of credit or payments between, by, through, or to any banking institution, and the importing, exporting, hoarding, melting, or earmarking of gold or silver coin or bullion, currency or securities, and
>
> (B) investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest,
>
> by any person, or with respect to any property, subject to the jurisdiction of the United States . . ."

The United States is presently in a "period of national emergency declared by the President"; the President declared such an emergency on December 16, 1950. Consequently, at the present time the President possesses the authority set forth in the section. Since under this section the President through any agency designated may prohibit . . . transactions involving any property in which any foreign country or national thereof has any interest by any person, or with respect to any property subject to the jurisdiction of the United States", he is authorized to prohibit any person subject to the jurisdiction of the

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[1] Drafted by the Assistant Legal Adviser for Economic Affairs, Stanley D. Metzger

United States from leasing docking space, bunkering, or dealing in any other manner with a foreign national or any property of such foreign national within United States jurisdiction. Hence, an order issued pursuant to the authority of this section could prohibit persons subject to the jurisdiction of the United States from having any transactions with a foreign ship which comes within United States territorial waters; this could effectively prevent the use of United States port facilities. Criminal penalties for violation of the section or orders issued pursuant thereto are provided for in the Act. Such action would not be effective to prevent foreign vessels from plying munitions to Guatemala since it is not necessary to touch United States ports or the Canal in order to do so.

Apart from the technical legal situation summarized above, there are important policy problems involved in such a use of Section 5(b) of the Trading With the Enemy Act. It is my understanding that the Treasury Department, which currently exercises the President's authority under Section 5(b), has exercised it in the international field only in situations involving actual hostilities with the exception of the blocking of the Czech Steel Mill in 1952; and that Treasury Department has been reluctant to utilize the section in other than a most serious type of situation, particularly because the authority granted by the section is extremely broad and use of it otherwise might result in curtailment of the authority itself. In the instant situation, a finding by the President that the shipment of arms to Guatemala is injurious to the security of the United States, and a directive to the Secretary of the Treasury to take action such as that set forth above, would in all likelihood be deemed necessary before the action could be taken.

In addition to the authority available to the Executive under Section 5(b) of the Trading With the Enemy Act, Section 191 of Title 50, U.S.C., provides broad authority to regulate anchorage and movement of vessels in the territorial waters of the United States and within the territory and waters of the Canal Zone during a declared national emergency. That section reads as follows:

> "Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control

of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof.

"Within the territory and waters of the Canal Zone the Governor of the Canal Zone, with the approval of the President, shall exercise all the powers conferred by this section on the Secretary of the Treasury.

"Whenever the President finds that the security of the United States is endangered by reason of actual or threatened war, or invasion, or insurrection, or subversive activity, or of disturbances or threatened disturbances of the international relations of the United States, the President is authorized to institute such measures and issue such rules and regulations—

> (a) to govern the anchorage and movement of any foreign-flag vessels in the territorial waters of the United States, to inspect such vessels at any time, to place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of rights and obligations of the United States, may take for such purposes full possession and control of such vessels and remove therefrom the officers and crew thereof, and all other persons not especially authorized by him to go or remain on board thereof;
>
> (b) to safeguard against destruction, loss, or injury from sabotage or other subversive acts, accidents, or other causes of similar nature, vessels, harbors, ports, and waterfront facilities in the United States, the Canal Zone, and all territory and water, continental or insular, subject to the jurisdiction of the United States. Any appropriation available to any of the Executive Departments shall be available to carry out the provisions of this chapter."

Eisenhower Library, Dulles papers, "Memoranda of Conversation"

Memorandum of Conversation With the President, by the Secretary of State[1]

TOP SECRET PERSONAL AND PRIVATE WASHINGTON, May 19, 1954.

Guatemala

I said that we took a very serious view of the arms shipments from Soviet-controlled territory to Guatemala. I said that it might require a revision of U.S. planning. In view of the gravity of the situation, the State Department had already contemplated setting up a special committee to advise with it informally with respect to procedures, particularly as to invoking the Caracas Resolution at a meeting of the Organization of American States. I suggested that this committee should consist of Dr. Milton Eisenhower, Walter Donnelly and Bill Pawley. The President agreed to the last two names. He said he doubted very much whether Dr. Eisenhower would be able to give any appreciable amount of time and he did not want us to ask him to do this. I said perhaps an hour or so a month would enable him to give the necessary counsel, and the President said that under these circumstances, he might be asked to serve. He had no question at all as to the propriety of his serving but merely as to the time involved.

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[1] This conversation took place in the White House between 9:30 and 10 a.m. Mr. Hagerty joined the President and the Secretary at 10 a.m.

[Here follows extensive discussion concerning Indochina.]

At this point Mr. Hagerty came in and there was some discussion as to what the President might say in his press conference about Guatemala, Indochina, and economic aid to India.[2]

J[OHN] F[OSTER] D[ULLES]

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[2] In a diary entry for May 19, Press Secretary Hagerty noted that the President, Secretary Dulles, and he discussed foreign policy questions anticipated to arise at the 10:30 press conference. "On Guatemala," he stated, "Dulles suggested and President agreed that the President say the shipment of Communist arms was disturbing and that that was one of the reasons the Resolution was passed at Caracas." (Eisenhower Library, Hagerty papers, Diary Series) The record of the President's press conference is printed in the *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954* (Washington, 1960), pp. 489–497.

414.608/5-2054: Circular telegram

The Secretary of State to Certain Diplomatic Offices in the American Republics[1]

SECRET

WASHINGTON, May 20, 1954—7:50 p.m.

416. Inform Foreign Minister orally we take extremely serious view of (1) reliable information on arrival in Guatemala on May 15 of important shipment armament transported from behind Iron Curtain and (2) paralysis of northern Honduras by sudden wave strikes which since May 3 have closed down ports, transportation, public services and essential economic activities in expanding area and which erupted in absence of an existing labor conflict and without gesture to seek demands through negotiation.

Point out in your discretion that sudden and significant reinforcement of Guatemalan military power by Communist-supplied armament at this moment is especially disturbing in view its evident effect strengthening international communist link with Guatemalan regime and since current unrest in Honduras does not appear to be entirely a domestic matter. We are impressed with coincidence that strikes have occurred in an area where three Guatemalan consuls, two of whom were only recently assigned there, have been declared *personae non gratae* by the Government of Honduras. Information reaching Department for many months has suggested infiltration of Guatemalan Communists into Honduras, and there are reports of Communist designs to provoke sympathy strikes in neighboring countries directed against stability their governments.

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[1] Drafted by Deputy Director of the Office of Regional American Affairs Jamison and Mr. Fisher; cleared by Assistant Secretary Holland, Ambassador Dreier, and Director of the Office of South American Affairs Atwood. Sent for action to the Embassies at Asunción, Bogotá, Buenos Aires, Caracas, Ciudad Trujillo, Habana, La Paz, Lima, Managua, Mexico, Montevideo, Panama, Port-au-Prince, Quito, Rio de Janeiro, San José, Santiago, and San Salvador; repeated for information to Guatemala City and Tegucigalpa.

In close consultation with Honduran Government we are following situation in that country carefully. Department also studying problem posed by arms shipment to Guatemala from Iron Curtain in context Communist aims in this hemisphere and means available to Communists to accomplish them.

If queried re press reports of suggestion possible OAS action concerning this situation you should confine your reply to statement of genuine and serious nature our concern and our view that problem should be carefully reviewed by each government in light such inter-American commitments as may be involved.

Emphasize especially present concern US is regard extra continental (Communist) character of problems posed by events and conditions described which raises doubt independent character Guatemala Government actions.

DULLES

State–JCS Meetings, lot 61 D 417

Substance of Discussion of Department of State–Joint Chiefs of Staff Meeting, Held at the Pentagon, 11:30 a.m., May 21, 1954[1]

TOP SECRET

[Here follow a list of those present (25) and discussion of matters unrelated to Guatemala.]

Mr. Murphy then said the next question for discussion was the situation in Guatemala. He asked Mr. Woodward to outline the Department's views.

Mr. Woodward stated that there was a general strike of the labor force on the banana plantations in northern Honduras and that while the Standard Fruit Company had apparently reached a settlement, United Fruit had not. We suspected that Guatemalan agitators were involved in the strikes and in view of the recent arrival in Guatemala of 2,000 tons of armaments the situation might become serious. The State

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[1] Attendees at this meeting included 14 representatives from the Department of Defense (all of the Joint Chiefs were present), 8 from the Department of State, 2 from the Central Intelligence Agency, and Mr. Gleason from the National Security Council. Deputy Under Secretary Murphy headed the State group, which also included Messrs. MacArthur, Bowie, Woodward, Landon, Hoey, Anschuetz, and Linebaugh.

Department is, therefore, most interested in the reevaluation of the military strength and significance of each of the Central American republics[2] which it understood would be initiated in the NSC Planning Board on May 24. In addition, the Department was requesting an NSC decision regarding the powers of the President to use American troops to assist Honduras in repelling an attack from Guatemala and particularly whether the President could use force without specific Congressional approval. Article 3 of the Rio Pact provides the authority for any country to come to the aid of another immediately and also provides for consultation among all the members of the Pact.[3]

General Ridgway inquired if the State Department had considered the desirability of Nicaraguan troops being sent to Honduras to augment the latter's strength as an alternative to the use of U.S. troops. He felt that if any U.S. force landed in Honduras there was bound to be trouble and we would end up killing a few Hondurans.

Mr. Murphy replied that the Department was considering this possibility but that it was felt if we tried to use straw men no one would believe we were not the instigators.

General Ridgway said that Nicaragua under the Rio Pact was as qualified as we were to come to the aid of Honduras and he seemed to feel this would be preferable.

Mr. Murphy raised the question of President Somoza's attitude. Mr. Woodward said Somoza would probably be willing to aid Honduras if he felt his troops could handle the situation. However, he has told us in confidence that he feels his military force is incompetent and one of the purposes of the military evaluation of the Central American republics referred to earlier would be to gain an accurate assessment of Nicaragua's strength.

Mr. Murphy said President Somoza would doubtless expect us to participate in any action if we called upon him to contribute force.

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[2] In a memorandum to Assistant Secretary Holland, dated May 21, 1954, summarizing the meeting with the Joint Chiefs, Deputy Assistant Secretary Woodward stated in part the following: "I did not mention to the Joint Chiefs on this occasion the advisability of our increasing the amount of military assistance that we are giving to other Central American countries, because when I mentioned this to Mr. Murphy he suggested that we take it up with Mr. Nolting. In any event, Mr. Murphy did not believe there would be any difficulty on this score if there should be a sudden need for assistance to the Central American countries." (714.00/5–2154) Frederick E. Nolting, Jr. was Special Assistant to the Secretary for Mutual Security Affairs.

[3] At its 197th meeting on May 13, 1954, the NSC had noted a statement by the Secretary of State that "if Guatemala makes an armed attack upon Honduras, the United States should be prepared to respond, under the Rio Pact, to a possible request by Honduras for U.S. armed assistance." (NSC Action No. 1122–*b*) The Council had also noted President Eisenhower's statement that Congressional leaders should be briefed on the Honduras situation on a bipartisan basis. (NSC Action No. 1122–*c*) The memorandum of discussion at the NSC's 197th meeting, including Action No. 1122, is in the Eisenhower Library, Whitman file, NSC records.

Admiral Radford stated that regardless of how the situation might develop the Joint Chiefs were going ahead with plans so that they would be in a position to carry out any orders they might get.

Mr. Murphy then referred to a *New York Times* article this morning which reported statements emanating from the U.S. were uniting Guatemala opinion against us.

General Cabell of CIA said his information was not consistent with the *New York Times* report and CIA understood the army particularly was becoming uneasy about the situation.[4]

Admiral Carney stated that they were carrying out air surveillance in the general area and watching shipping operations.

General Cabell said in response to Admiral Radford's question that it is not yet known what the recent 2,000 ton equipment consisted of although it did include mortars, artillery and small arms. CIA is not certain whether ammunition was in the shipment. This may be on the way.

[Here follows additional discussion of matters unrelated to Guatemala.]

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[4] A telegram from Guatemala, dated May 20, 1954, reported that information from available sources indicated that many Guatemalan army officers were pleased to have the newly delivered arms, but they also had misgivings about the shipment for the following reasons: 1) it demonstrated the closeness of the Arbenz government to the Soviet Union, 2) it raised the possibility of the replacement of the U.S. Military Mission by Soviet or satellite military instructors, 3) it provided evidence that the Communists intended to take over Guatemala completely, and, 4) it would motivate the United States to take drastic action resulting in "terrible consequences" for Guatemala.

414.608/5–2154

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State

SECRET [WASHINGTON,] May 21, 1954.

Subject: Detention of Foreign Flagships Transporting Arms to Guatemala.

Discussion:

The Second Mate of the *Alfhem*, Swedish ship now discharging arms in Puerto Barrios, stated to the U.S. Naval Attaché that two Finnish ships had loaded arms at Stettin for Guatemala at about the same time that the *Alfhem* was loaded. He stated that one of these ships left Stettin three weeks before the *Alfhem* and that he saw it off Puerto Barrios on the night of May 14. Our Naval Attaché conjectures that it may be waiting until the *Alfhem* is unloaded before coming into port itself.

We are advised that the Navy is now carrying out an aerial reconnaissance of the sealanes leading to Puerto Barrios and that it will report any vessels which might be suspected of carrying further arms. The policy which this Government will pursue in the event that such vessels are sighted should be determined now.

We feel that the following steps should be taken in the order stated with respect to any suspicious vessel on the high seas[1] sighted by the Navy:

1. If time permits we should attempt without detaining the ship to persuade its Flag state to order it to divert to Panama for inspection.
2. If time does not permit the preceding step our naval vessels should detain the ship, using force as a last resort, while we attempt to persuade its Flag state to divert it to Panama for inspection.
3. If neither of the two preceding steps is successful then our Navy should, using force as a last resort, escort the vessel to Panama for inspection.

Our action[2] should be based upon Article III of the Rio Treaty which preserves the inherent right of individual self-defense in case of an armed attack and Article LI of the Charter of the United Nations which provides that nothing therein "shall impair the inherent right of individual . . . self-defense . . .".[3]

This legal justification rests upon the conclusion that repeated and clandestine shipments of arms from Iron Curtain origin to a destination in this hemisphere amounts to armed aggression at least against the state of destination if not against every American state including ourselves.

While the steps outlined above should suffice to prevent the arrival of another arms-laden ship in Puerto Barrios, we should resolve that additional steps will be taken, if essential, to prevent such an occurrence.

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[1] The handwritten words "on the high seas" were inserted in the source text, apparently by Mr. Holland.

[2] Assistant Secretary Holland had outlined the policy recommended in this memorandum at the Secretary of State's staff meeting held at the Department of State at 9:15 a.m. on the previous morning. The notes of the meeting, dated May 20 and designated SM N-230, read in part as follows: "Mr. MacArthur asked whether it would be feasible to secure the action of some other western hemisphere government in making the moves against the shipment of arms. Mr. Holland said that his inclination was to assert the responsibility of the accepted position the US holds in this hemisphere. Any other procedure he felt would fool no one and cause the US to look weak and ridiculous. He agreed that his feelings in the matter would not preclude the possibility of joint action." (Secretary's Staff Meetings, lot 63 D 75)

[3] Ellipses in the quotation appear in the source text of the memorandum.

Recommendation:

If you approve the foregoing suggested policy it is recommended that you discuss it with the President and representatives of the Department of Defense in your conference on Saturday, May 22.[4]

If this recommendation is there accepted, we shall undertake to furnish all necessary information to the proper naval authorities so that the operation may be put into effect at once.

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[4] The source text bears the initials of Secretary Dulles, indicating his approval of the policy recommended by Assistant Secretary Holland, and also the following handwritten notation by the Secretary: "Cleared with President May 22, 1954, at conference with Secy. Anderson[,] Admir Radford[,] Allen Dulles[,] and Bobby Cutler." See *infra*.

Eisenhower Library, Dulles papers

Memorandum of Conversation, by the Special Assistant to the President (Cutler)[1]

TOP SECRET PERSONAL AND PRIVATE WASHINGTON, May 22, 1954.

Present: J. F. Dulles, A. W. Dulles, Anderson, Radford, and Cutler

[Here follows discussion relating to the defense of Formosa and other islands bordering the China Coast between Formosa and the mainland.]

The Secretary of State raised the question of what should be done to prevent further shipments of war munitions from the Soviets to Guatemala. He pointed out that a Swedish ship had already landed two thousand tons of munitions in Guatemala. (The US erroneously took to Puerto Rico and unloaded a decoy ship, and missed the munitions carrier.) The Secretary thought that we should act promptly, in order to avoid the importation of such a great amount of arms that a major military effort would be required by the US to handle the developing situation. The basic request made by State was that the Navy be authorized to halt suspicious vessels on the high seas off the Guatemalan coast, voluntarily if possible, but by force, if necessary, and if such vessels refused permission to inspect their cargoes, to take them to Panama for inspection; the US being prepared to pay any damage or demurrage.

In answer to the President's inquiry as to the effect of this action on our friends, and on the other American Republics, the Secretary made these points:

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[1] The source text indicates that this conversation took place in the White House at 9:15 a.m. The President's daily appointment book, however, records that it occurred at 9:55 a.m., and as requested by the Secretary of State. A copy of this memorandum was forwarded to Secretary Dulles under cover of a memorandum from Mr. Cutler, dated May 24, not printed.

(1) Honduras and Nicaragua have already asked the US for help. El Salvador probably will so ask. Costa Rica is beginning to worry a little about being so close to the Communists.

(2) Article 51 of the UN Charter provides the right to members of collective and individual defense. What is going on in Guatemala, since the Russians never furnish arms to a country without a bad motive, is a direct threat to the security of the US (via Panama Canal).

(3) Machinery has been set in action to call a meeting of the Organization of American States, but this will take a couple of weeks.

(4) The Caracas Resolution recognizes that the control of an American State by Communists was a threat to the security of the US (17 votes for, 1 vote against, 2 abstentions).

(5) Assistant Secretary Holland would go to Mexico City to keep the Mexican Government advised.

Under these circumstances, the President agreed to the proposed action, suggesting only that we should give notification to friendly countries of what we are proposing to do.

714.56/5–2254

Memorandum of Conversation With the President, by the Secretary of State

TOP SECRET

[WASHINGTON,] May 22, 1954.

We discussed the annexed statement[1] of proposed action with reference to efforts to intercept arms to Guatemala. The President agreed with the program. However, he suggested that we should, if possible, obtain a request for our action by some of Guatemala's neighbors who were threatened by Guatemalan aggression, and that we should internationalize our action to the maximum. He suggested possible notification to shipping countries so as to prevent inconvenience to them. I also said that Mr. Holland, or another of our group, would probably be shortly going to Mexico, due to the importance of keeping Mexico promptly and fully informed of our plans.

JOHN FOSTER DULLES

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[1] Not found with the source text.

414.608/5–2254

The Assistant Secretary of State for Inter-American Affairs (Holland) to the Deputy Secretary of Defense (Anderson)[1]

SECRET [WASHINGTON,] May 22, 1954.

DEAR MR. ANDERSON: As the Department of Defense is aware, a large quantity of arms originating behind the Iron Curtain has arrived at Guatemala on May 15, 1954 aboard the S.S. *Alfhem*, a Swedish flag vessel. Cables to the Department of State, all of which have been distributed to the Department of Defense, have given details concerning this shipment of arms and efforts made to prevent their final delivery, inasmuch as predominant military power in the hands of the pro-Communist Guatemalan Government would create a situation dangerous to the peace and security of this hemisphere.

Information has also been received by this Department, and promptly furnished to the Department of Defense, that two other ships bearing arms are believed coming from the same port, Stettin, to Guatemala, and that their arrival is anticipated in the very near future; these ships may fly the Finnish flag, and one of them was reported to have been seen outside Puerto Barrios on the night of May 14, 1954. In addition to these two ships, the American Consulate at Kingston, Jamaica reported on May 19, 1954 that a German vessel, S.S. *Sajma*, was sighted off the coast of Cuba on the morning of May 18, 1954, bound for Belize, British Honduras, and carrying twelve crates of arms or explosives, according to a . . . source; this latter information was sent to the Department of Defense on the same night, and the request made that immediate steps be instituted to locate and identify this vessel. On May 20, 1954, the office of the United States High Commissioner for Germany reported that this ship is probably the Finnish M/S *Sajmaa*, and this information was sent to the Department of the Navy.

In order that effective steps may be taken to prevent delivery of arms of Soviet or Iron Curtain origin to Guatemala, it is necessary that the Department of State have information as far as possible in advance of the arrival of any such shipments. Confirming our telephone conversation and the previous data furnished to the Department of Defense, it is therefore requested that action be instituted to make available to the Department of State the following information:

a) The identity and location of the two ships reported to be bound for Guatemala from Stettin, carrying arms and ammunition for Guatemala;

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[1] Drafted by Mr. Leddy.

b) The identity and location of the vessel reported to have left Stettin and to have been sighted outside of Puerto Barrios on May 14, 1954;

c) The identity and location of the M/S *Sajmaa*:

d) The identity and location of all ships leaving European ports bound for Puerto Barrios, Guatemala;

e) Intelligence information which would serve to identify and locate any ships entering the Caribbean area from European ports of departure, which might be destined for Puerto Barrios, whether or not this destination is listed.[2]

Sincerely yours,

HENRY F. HOLLAND

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[2] No reply to this letter was found in Department of State files.

414.608/5–2254: Telegram

The Secretary of State to the Embassy in El Salvador[1]

TOP SECRET PRIORITY WASHINGTON, May 22, 1954—9:29 p.m.

117. There are still unconfirmed reports that at least two additional European flagships now enroute or to depart shortly for Guatemala with additional armaments originating behind Iron Curtain. We feel it imperative these shipments be prevented from reaching Guatemala. Would prefer that any US action be taken pursuant request of governments most affected by such shipments. Ascertain whether government to which you are accredited willing request us to endeavor to locate and detain these ships outside Guatemalan territorial waters. In view importance and urgency such action suggest you may desire promptly consult with President.[2]

DULLES

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[1] Drafted and signed by Mr. Leddy; cleared with the Secretary. Sent also to Managua, San José, Panama, and Tegucigalpa; repeated for information to Guatemala City.

[2] In telegram 1592 to Mexico City, dated May 26, 1954, Secretary Dulles stated in part that El Salvador, Honduras, and Nicaragua had made "clearcut" requests for U.S. cooperation to prevent further arms from reaching Guatemala, and that Costa Rica and Panama were considering making similar requests (414.608/5–2654).

MID files, lot 57 D 95

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

SECRET [WASHINGTON,] May 24, 1954.

Subject: Arms for Guatemala from Europe

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[1] Drafted by Mr. Leddy.

Discussion:

It was decided early in 1953 that we should take steps to prevent export of arms from Europe to Guatemala, as a necessary corollary to our policy of not licensing arms exports for Guatemala from the United States. In each individual case where information reached the Department on Guatemalan attempts to purchase arms in Europe, we requested the Government of the exporting country to prevent shipment; in all cases our efforts were successful. In April 1954 we circularized [2] ten European missions to request these Governments to institute general measures of control against such shipments to Guatemala, whether originating in the country or in transit. In the individual and general approaches the basis for our request was the danger to the peace of the free world from the expansion of Communist power in Guatemala. On April 28, 1954 our request was presented to the NATO Council in Paris on the basis of commitments of NATO members not to export war materials. Finally, on May 21, 1954,[3] we again called attention of the same nations to the problem of large shipments such as in the *Alfhem* case, which would be going through as a matter of international trade from behind the Iron Curtain.

Individual Western European countries have thus far taken effective action on specific request of arms export brought to their attention. We do not yet have clear evidence of what general measures they have adopted to catch individual exports that we do not bring to their attention, although several have cordially agreed to cooperate. On our broad request to prevent large shipments moving in international trade, there is yet no answer, but the Dutch have already indicated their disagreements.

Recommendation:

We should now bring home directly to each maritime nation that we request their effective cooperation on both small and large shipments. We should seriously consider whether, in the absence of effective cooperation, we will notify them of our intention to take measures of our own.[4]

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[2] Reference is to Department's telegram 323, dated Apr. 14, 1954, p. 1098.

[3] Reference is to Department's telegram 360 to Lisbon, dated May 21, repeated to Madrid, Paris, Rome, Bern, Brussels, The Hague, Stockholm, London, HICOG in Bonn, and USPOLAD in Trieste, which reads in part as follows: "Strict enforcement control measures to prevent additional shipments of arms, ammunition and war matériel to Guatemala from Europe now imperative. Reiterate to appropriate Government officials our previous requests to tighten arms export and transit controls in order eliminate possibility clandestine or concealed shipments." (414.608/5–2154)

[4] The source text contains no indication of the Secretary's action on this recommendation.

611.14/5-2454: Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

CONFIDENTIAL GUATEMALA CITY, May 24, 1954—8 p. m.
PRIORITY

776. Pursuant to his request (Embtel 760, May 22),[1] I called this morning on Foreign Minister Toriello. He looked ill and said he had had to defer visit to Presbyterian Hospital in New York because of circumstances. Talk lasted hour and half and touched on relations with US, United Fruit Company problems, arms shipment and Communism. It gave no hint of any basic change in Guatemalan policy.

Relations with US: Toriello expressed concern over Guatemala's relations with US which he said were getting worse; he knew consultations were now taking place regarding calling an OAS meeting and if one were called, Guatemala would attend and defend itself; Guatemala had strong case and would command respect of other American Republics for not tolerating intervention; he doubted meeting would do either Guatemala US much good.

Fruit Company problems: Toriello said he would hand me note[2] rejecting Department's claim for UFCO and did so at end of interview. Note summarized in Embtel 772, May 24.[3] He then said Fruit Company had been exploiting Guatemala for years and paid very little taxes and he wondered whether we could not sit down with our advisers and work out solution. I asked whether government had ever informed UFCO exactly what it desired and he said, he felt company should approach government first. He then said he had no confidence in impartiality of Secretary Dulles, because of connection with Sullivan and Cromwell, and certain employees of State Department on UFCO question and suggested I discuss this matter personally with President Eisenhower. I replied that his suspicions of Secretary and of Department's fairness were entirely groundless and that dealing in personalities only confused the issue. Toriello then said he might call me towards end of week at which time he might have some concrete proposals to make re UFCO. I said I would be available whenever he wished to talk to me but reminded him other American interests were also involved, mentioning specifically Grace Line's current difficulties (Embtel 743, May 21).[4] He stated clearly that American interests would eventually have to give up control of all ports, communications and transportation since Guatemala was sovereign nation.

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[1] In the referenced telegram, Ambassador Peurifoy reported that in an effort to secure foreign support for Guatemala in the arms shipment controversy, Foreign Minister Toriello on the previous day had explained to all Chiefs of Mission, except Ambassador Peurifoy, Guatemala's views on the issue, and that the Foreign Minister had allegedly stated that Guatemala would attend and defend its position if a meeting of the OAS were called, but that he would appeal to the United Nations Security Council if attacks against Guatemala did not cease (414.608/5-2254).

[2] Not printed.

[3] In telegram 772, Ambassador Peurifoy reported that in the Guatemalan Government's memorandum, dated May 24, 1954, Foreign Minister Toriello rejected UFCO's claim for damages, refused to consider the subject an appropriate one for international discussion, and described the action of the U.S. Government in presenting the claim as intervention in the internal affairs of Guatemala (214.1141 UFCO/5-2454).

Arms shipment: Toriello confirmed that Guatemala had received arms shipment but denied categorically that arms were manufactured in any country which US regarded as Soviet satellite. When I asked if he could state arms were not purchased in satellite country, he replied negatively. He emphasized refusal of US to sell arms left Guatemala no alternative and assured me arms were for protection, since UFCO was financially backing Castillo Armas plot against Guatemalan Government. He said arms were not for aggression.

Communism: I told Toriello that for US problem of Communism was of greatest concern and that until that was solved I feared we would continue to have difficulties, he replied with standard line that Commies few and of no importance. I said I could not agree with him on this.

After his talk with me Toriello held press conference at which he announced that he and I would hold conversations looking toward solution of outstanding problems and expressed optimism that tension could be diminished.

My feeling is that Guatemalans are seriously worried over possibility of OAS meeting and are making desperate effort to induce us to defer or drop plans for international action. They either believe or wish to make Latin America believe that our real concern over Guatemala stems from UFCO's problems and hope that discussions on this issue can be drawn out until moment for action has passed. There is no indication that they have any intention of modifying their attitude towards Commies. I therefore suggest Department play down fruit company problem for present and concentrate on Commie issue.

PEURIFOY

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[4] Not printed (814.062/5–2154).

S/P-NSC files, lot 62 D 1, NSC 5419

Draft Statement of Policy by the National Security Council[1]

TOP SECRET [WASHINGTON,] May 24, 1954.
NSC 5419

U.S. POLICY IN THE EVENT OF GUATEMALAN AGGRESSION IN LATIN AMERICA

GENERAL CONSIDERATIONS

1. The Inter-American Treaty of Reciprocal Assistance, to which the United States is a party, provides as follows:

"*Article 3*

"1. The High Contracting Parties agree that an armed attack by any State against an American State shall be considered as an attack against all the American States and, consequently, each one of the said Contracting Parties undertakes to assist in meeting the attack in the exercise of the inherent right of individual or collective self-defense recognized by Article 51 of the Charter of the United Nations.

"2. On the request of the State or States directy attacked and until the decision of the Organ of Consultation of the Inter-American System, each one of the Contracting Parties may determine the immediate measures which it may individually take in fulfillment of the obligation contained in the preceding paragraph and in accordance with the principle of continental solidarity. The Organ of Consultation shall meet without delay for the purpose of examining those measures and agreeing upon the measures of a collective character that should be taken.

"*Article 6*

"If the inviolability or the integrity of the territory or the sovereignty or political independence of any American State should be affected by an aggression which is not an armed attack or by an extra-continental or intra-continental conflict, or by any other fact or situation that might endanger the peace of America, the Organ of Consultation shall meet immediately in order to agree on the measures which must be taken in case of aggression to assist the victim of the aggression or, in any case, the measures which should be taken for the common defense and for the maintenance of the peace and security of the Continent."

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[1] This paper was based on a memorandum drafted in the Bureau of Inter-American Affairs (ARA) by Mr. Jamison and Mr. Leddy on May 12, 1954, not printed, and submitted to Director of the Policy Planning Staff Bowie by Assistant Secretary Holland on May 13. That draft was subsequently returned to ARA and revised after consultation between officers in ARA and Louis J. Halle of the Policy Planning Staff. The revised draft was resubmitted to Mr. Bowie on May 19, and forwarded to the NSC Planning Board on the following day. In a memorandum to Mr. Bowie, dated May 20, not printed, Mr. Halle commented that he had doubts about the reliability of some of the factual statements contained in ARA's draft memorandum (PPS files, lot 65 D 101, "Guatemala"). The NSC Planning Board amended the revised draft at its meeting on May 24, and also approved submission of the amended draft as NSC 5419 to the NSC for consideration (record of the meeting of the NSC Planning Board, S/P–NSC files, lot 62 D 1).

Under a covering note dated May 24, not printed, NSC Executive Secretary Lay transmitted the draft statement of policy to the NSC for consideration at its meeting on May 27, 1954; see *infra*.

2. Since May 1, a strike situation has developed in Honduras in which the entire north coast area has been paralyzed. There is reason to believe that the strike may have had inspiration and support from the Guatemalan side of the Honduran boundary. The situation has prompted the Honduran government to send much of the weakly organized and poorly equipped Honduran army to the strike area and to stand guard on the Guatemalan border, thus stripping the capital at Tegucigalpa of military forces.

3. In these circumstances an armed attack by Guatemala could, perhaps, in a matter of hours, bring about the fall of the Honduran government.[2] (If Guatemalan aggression took some form other than an "armed attack", Article 3 would not apply and other provisions of the Rio Treaty would have to be invoked.)

4. Any successor government which arose in Honduras as the result of a successful Guatemalan attack might well have the same leaning toward Communism that distinguishes the present government of Guatemala. This would pose a most serious threat to the ability of the other governments of Central America to withstand Communist penetration or control. It would thus constitute a serious threat to the security of the area and, correspondingly, to United States security interests there.

RECOMMENDATIONS

5. If the government of any member of the Organization of American States should, under Article 3, paragraph 2 of the Rio Treaty, request the assistance of the United States to meet an armed attack by Guatemala, and if the President should be satisfied that such an attack has occurred, it is recommended that the President:

a. Determine that such Guatemalan armed attack is considered by the United States as an armed attack against all American states under Article 3, paragraph 1 of the Rio Treaty, and constitutes an imminent threat to the security of the United States.

b. Direct that under Article 3, paragraph 2 of the Rio Treaty and to protect the security of the United States, the armed forces of the United States, in collaboration with the armed forces of other members of the Organization of American States to the extent feasible, take military action to the extent necessary to counteract the attack and eliminate the danger to the state attacked.

6. The United States should encourage any member of the Organization of American States which requests the United States to come to its assistance, also to request such action by other members of the Organization of American States pending a decision by the Organ of Consultation.

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[2] In his memorandum to Mr. Bowie, dated May 20, Mr. Halle stated that he believed a Guatemalan attack on Honduras was unlikely.

7. The United States should take all practicable steps to ensure that the other members of Organization of American States are prepared for collective action under the Rio Treaty to assist any member of Organization of American States threatened by aggression or internal subversion inspired by Guatemala.

8. The Chairmen of appropriate congressional committees should be immediately informed of the above policy.

9. The timing of public disclosure of the above policy should be determined by the Secretary of State.

Eisenhower Library, Eisenhower papers, Whitman file, NSC records

Memorandum of Discussion at the 199th Meeting of the National Security Council on Thursday, May 27, 1954[1]

TOP SECRET EYES ONLY

[Here follow a list of those present (22) and discussion of matters unrelated to Guatemala.]

3. *U.S. Policy in the Event of Guatemalan Aggression in Latin America* (NSC 5419;[2] NSC 144/1[3])

Mr. Cutler pointed out that the short Planning Board paper had been drawn up in the light of Articles 3 and 6 of the Rio Treaty. It has also taken into consideration the U.S. right of self-defense and the great desirability of collective action in dealing with the problem of Guatemala. He then turned to the Recommendations in the Planning Board paper, which he proceeded to read, together with the recommendation for revision submitted by the Joint Chiefs of Staff.[4] The proposals for revision of paragraph 5–*b* and paragraph 7 offered by the Joint Chiefs of Staff were agreed to by the Council, as was a suggestion for the revision of paragraph 8 offered by Mr. Cutler.

Thereafter, Mr. Cutler informed the Council of the decision made by the President on the previous Saturday,[5] on means to prevent further shipment of arms to Guatemala. After reading a brief statement of the content of the President's decision, Mr. Cutler asked Secretary Dulles for his comments.

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[1] This memorandum was drawn up by NSC Deputy Executive Secretary Gleason.

[2] *Supra.*

[3] NSC 144/1, "United States Objectives and Courses of Action With Respect to Latin America," dated Mar. 18, 1953, p. 6.

[4] The Joint Chiefs of Staff, in a memorandum to the Secretary of Defense dated May 26, 1954, stated that they assumed early action would be taken to convene the Organ of Consultation of the Organization of American States as one of the steps to be taken under the provisions of paragraph 7 of NSC 5419. They recommended that paragraph 5 of the draft statement be revised to indicate that "unilateral military action should be taken only as a last resort", and suggested that, for accuracy, "direct attack" be substituted for "aggression" in the title of NSC 5419. A copy of the May 26 memorandum is in JCS files.

[5] May 22. See the Secretary's memorandum of conversation with the President, p. 1123.

Secretary Dulles suggested one slight amendment in the Presidential statement, and said that he had little else to say except that the State Department has commenced its informal conversations with those countries which were likely to have vessels in the area near Guatemala. He predicted that these various countries would not accord formal recognition of our right to detain and search their vessels on the high seas, but that they would be willing to look the other way while we did this. Secretary Dulles also expressed the opinion that action taken thus far by the United States had probably scared away other vessels carrying arms to Guatemala. Accordingly, the immediate danger of shipments of arms to Guatemala had been allayed. The point that had been hard to get other people to appreciate was the *relative* magnitude of the first shipment of arms to Guatemala. While not in itself large, the shipment really had produced a serious shift in the balance of military power in Central America in favor of Guatemala.

Mr. Cutler then asked whether the arms which had arrived in the first shipment to Guatemala were being handed out to the strikers in Honduras. Secretary Dulles replied that part, at least, of these arms was apparently being set aside for subversive activity both in Honduras and Nicaragua.

Secretary Anderson[6] referred briefly to the preparations by the Defense Department to evacuate American civilians from Honduras if this proved necessary.

Secretary Dulles then expressed very great concern about the Communist line being followed by Sydney Gruson in his dispatches to the *New York Times*. Gruson, thought Secretary Dulles, was a very dangerous character, and his reporting had done a great deal of harm. The President said that he often felt that the *New York Times* was the most untrustworthy newspaper in the United States, at least as far as the areas of the news with which he was personally familiar were concerned. Mr. Allen Dulles pointed out some very disturbing features of Sidney Gruson's career to date.

The Attorney General[7] asked if it would not be a good idea for someone to talk informally to the management of the *New York Times*. Admiral Strauss[8] them suggested that he would be glad to talk to Arthur Sulzberger[9] if the President thought it a good idea. The President said he had no objection to Admiral Strauss' proposal, but he doubted if anything useful would come of the conversations.

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[6] Robert B. Anderson, Acting Secretary of Defense.

[7] Herbert Brownell, Jr.

[8] Lewis L. Strauss, Special Assistant to the President.

[9] Publisher of *The New York Times*.

Mr. Allen Dulles then pointed out that the forthcoming arms shipments to Guatemala might well come from other countries than those behind the Iron Curtain, and wondered whether the phrasing of the President's statement should be changed to recognize this fact and to take account of the importance of the use to which the arms were put rather than the place of origin of the shipment.

Secretary Dulles commented that of course the essence of the matter was not the place of origin but the fact of a hostile government in Guatemala. If this government succeeds in procuring arms next time from elsewhere than the Soviet bloc, we should, of course, do all we can to prevent the shipment from reaching its destination. The President's statement was amended to meet the point raised by Mr. Allen Dulles.

The Attorney General then made a brief comment as to the legality of the U.S. action proposed by the President, of stopping suspected vessels on the high seas. Such action was in general outside the limits of international law. There was, however, a well-established exception which permitted interference with vessels of another nation on the high seas if self-defense or self-preservation was clearly involved. It seemed to the Department of Justice, continued the Attorney General, that the facts of the case, as presented by Secretary Dulles in his recent press conference, fully supported an invocation of self-defense and self-preservation.

Secretary Dulles pointed out that Guatemala's military establishment was three times as large as the military establishments of all its neighbors put together. This completely denied Guatemala's allegation that the arms it had imported were for its own self-defense. The Attorney General agreed, but warned the Council to be prepared to see a division among the international lawyers on this question. He also expressed the opinion that no internal constitutional issue was raised by the Presidential action, and that there was no need to seek Congressional approval.

Governor Stassen [10] said that the problem of Guatemala seemed to him to raise the question of revising the Monroe Doctrine to prevent shipment of arms to a government in this hemisphere which was dominated by a foreign ideology. Secretary Dulles replied that he thought something like this had been accomplished at the Caracas Conference. The present action against Guatemala was simply a detailed application of the general rule of preventing the extension of the Communist conspiracy to the Western Hemisphere. He added that the United States was preparing to take the Guatemalan problem into a meeting of the Organization of American States as a situation which called for action even beyond the terms of the Caracas anti-Communist resolution.[11] He said that he had had conversations with the Brazilian Ambassador, who had said that his country would not only go along with us, but would take the lead. This Secretary Dulles found very heartening, since we needed support from others than the Somozas in the Hemisphere.

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[10] Harold E. Stassen, Director, Foreign Operations Administration.

The President expressed the hope that we could secure the support of Uruguay as the outstanding democracy in South America. Secretary Dulles replied that the Brazilian Ambassador had suggested that one of the best ways of getting Uruguay to go along would be to propose holding the OAS meeting in Montevideo. He predicted it would be hard to gain the support of Uruguay, but thought that this suggestion might help. Mexico also would prove difficult.

With regard to the problem of military assistance to the Latin American republics, the President said he hoped that we would not forget that we could not strengthen the military position of tiny countries like Honduras by merely dumping modern arms into them. We should supplement this action by seeing to it that the armies of these countries were taught the effective use of the armament we provided. He thought this problem ought to be surveyed as a long-range affair.

Governor Stassen inquired as to whether thought should be given to cancelling the very small amount of Technical Aid which the United States was still providing Guatemala. . . .

The National Security Council:[12]

a. Discussed the reference report on the subject (NSC 5419) in the light of the views of the Joint Chiefs of Staff presented orally at the meeting.

b. Adopted the Recommendations contained in paragraphs 5–9 of NSC 5419, subject to the following changes:

(1) *Paragraph 5–a, 3rd line:* Change "paragraph 2" to read "paragraph 1".

(2) *Paragraph 5–b, 5th line:* Add, after "to the extent feasible", the words "and unilaterally only as a last resort,".

(3) *Paragraph 7, 1st line:* Insert "political" between "practicable" and "steps".

(4) *Paragraph 8:* Revise to read as follows: "8. Appropriate Congressional leaders should be immediately informed of the above policy."

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[11] Reference is to Resolution XCIII; see footnote 2, p. 1093.

[12] Subparagraphs *a–d* constitute NSC Action No. 1135.

c. Noted that the President, in order to protect the security of the United States and specifically to defend the Panama Canal, had authorized the Navy to halt on the high seas off the Guatemalan coast vessels, including foreign-flag vessels, suspected of carrying munitions of war destined for Guatemala, in order to inspect their cargoes, and if such inspection is refused, to escort such vessels by force, if necessary, to Panama for inspection; such action to be taken, where time permits: (1) after notice to the country of registry of any such vessel in order to obtain, if possible, such country's consent to such inspection and (2) after notice to the Organization of American States and, if possible, with the approval of such Organization.

d. Noted the President's reference to United States policy as to training the military establishments of Latin American nations, provided in NSC 144/1, paragraph 18–*b*.

Note: The Recommendations referred to in *b* above, as approved by the President,[13] and the actions in *c* and *d* above subsequently referred to the Operations Coordinating Board as the coordinating agency designated by the President, and circulated as NSC 5419/1.

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[13] President Eisenhower approved the recommendations contained in paragraphs 5–9 of NSC 5419, as amended and adopted by the NSC, on May 28, 1954.

S/P–NSC files, lot 62 D 1, NSC 5419/1 Series

Statement of Policy by the National Security Council[1]

TOP SECRET
NSC 5419/1

[WASHINGTON,] May 28, 1954.

U.S. POLICY IN THE EVENT OF GUATEMALAN AGGRESSION IN LATIN AMERICA

RECOMMENDATIONS

1. If the government of any member of the Organization of American States should, under Article 3, paragraph 2 of the Rio Treaty, request the assistance of the United States to meet an armed attack by Guatemala, and if the President should be satisfied that such an attack has occurred, it is recommended that the President:

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[1] NSC Executive Secretary Lay, under a covering note dated May 28, 1954, not printed, transmitted the recommendations of NSC 5419 (paragraphs 5 to 9), adopted by the NSC subject to the changes set forth in NSC Action No. 1135–*b*, to the NSC as NSC 5419/1. Mr. Lay informed the NSC of the President's authorization to the Navy to halt Guatemalan coastal vessels, including foreign-flag vessels suspected of carrying munitions of war, for cargo inspection, and also the President's reference to NSC 144/1, paragraph 18–*b* (see p. 10) regarding U.S. policy on training the military establishments of Latin American nations. President Eisenhower approved the recommendations in NSC 5419/1 on May 28, 1954, directed their implementation by all appropriate executive departments and agencies, and designated the OCB as the coordinating agency.

a. Determine that such Guatemalan armed attack is considered by the United States as an armed attack against all American states under Article 3, paragraph 1 of the Rio Treaty,* and constitutes an imminent threat to the security of the United States.

b. Direct that under Article 3, paragraph 2 of the Rio Treaty and to protect the security of the United States, the armed forces of the United States, in collaboration with the armed forces of other members of the Organization of American States to the extent feasible, and unilaterally only as a last resort, take military action to the extent necessary to counter-act the attack and eliminate the danger to the state attacked.

2. The United States should encourage any member of the Organization of American States which requests the United States to come to its assistance, also to request such action by other members of the Organization of American States pending a decision by the Organ of Consultation.[2]

3. The United States should take all practicable political steps to ensure that the other members of Organization of American States are prepared for collective action under the Rio Treaty to assist any member of Organization of American States threatened by aggression or internal subversion inspired by Guatemala.

4. Appropriate congressional leaders should be immediately informed of the above policy.

5. The timing of public disclosure of the above policy should be determined by the Secretary of State.

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*For text of pertinent articles of the Rio Treaty, see Appendix. [Footnote in the source text; appendix not printed.]

[2] On Sept. 3, 1954, NSC Acting Executive Secretary Gleason, in a memorandum to the NSC, not printed, stated that the Council at its 212th meeting on Sept. 2, 1954, in connection with action on NSC 5432, agreed that the statement of policy in NSC 5419/1 "should be terminated as no longer applicable." (NSC Action No. 1209) President Eisenhower approved the action of the Council on Sept. 3, thereby terminating NSC 5419/1. Mr. Gleason informed the Council that "policy relating to action against anti-U.S. subversion or intervention in Latin America and to the application of sanctions, including military action, in the event of threatened or actual domination of a Latin American state by Communism" was contained in paragraph 6 of NSC 5432/1 (see p. 83).

414.608/5-2854:Circular telegram

The Secretary of State to Certain Diplomatic Offices[1]

SECRET WASHINGTON, May 28, 1954—9:04 p. m.

440. Department requests you inform government to which accredited at high level of serious concern this Government with regard to use of ships of friendly powers to transport arms to Guatemala, whose Communist-oriented government poses increasing threat in vital Central American area.

For your information only this Government is determined prevent further substantial arms shipments from reaching Guatemala, but first seeking cooperation of other governments which it urgently desires you obtain.

You may exercise your judgment how this matter is taken up. Following argument presented for your guidance:

1. A Soviet thrust into Western Hemisphere by establishing and maintaining Communist-controlled state between U.S. and Canal Zone would represent serious set-back to free world. It would represent challenge to Hemisphere security and peace as Guatemala has become increasingly instrument of Soviet aggression in this hemisphere. Its President (Arbenz) has publicly expressed his backing of Communists saying that to isolate them would be equivalent to suicide of revolutionary movement he heads. Communists have infiltrated government and now control its agrarian reform, labor, social security, informational and educational policies. Police and Army are either subservient or passive toward Government's pro-Communist policies. Sole national labor federation, affiliated with WFTU, is Communist controlled. All political parties supporting Administration, controlling 51 of 56 seats in Congress, are bound together in Communist controlled "National Democratic Front". In its foreign relations, Guatemala has become spokesman for Soviet policy for Western Hemisphere and menace to stability of strategic Central American and Caribbean area.

2. U.S. Government has for some time pursued policies designed to reduce this threat. It obtained at Caracas OAS Conference anti-international Communist resolution under which action can be taken against the domination or control of an American state by international Communism. Guatemala was only American country to vote against it. U.S. has for several years progressively denied export licen-

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[1] Drafted by John C. Hill, Jr. of the Office of Middle American Affairs. Sent to the Embassies in Stockholm, Paris, Brussels, Lisbon, Rome, The Hague, Oslo, Copenhagen, Helsinki, Athens, London, and Madrid; sent also to HICOG in Bonn; repeated for information to the Embassies in Bern and Guatemala City, USUN in New York, and USPOLAD in Trieste.

In circular telegram 443, dated May 29, 1954, sent to all diplomatic posts in the American Republics, except Guatemala, and repeated for information to the Embassies in Guatemala City, London, Paris, Rome, Bonn, Stockholm, Copenhagen, Oslo, Bern, Vienna, Madrid, and Athens, and to USUN in New York, the Department augmented this telegram with additional details concerning arms shipments to Guatemala, particularly the so-called "*Alfhem* case." (414.608/5-2954) ses for arms to Guatemala to prevent build up of its military potential which is already predominant in area. This predominance now greatly increased by recent arrival 2,000 ton shipment of armaments from behind iron curtain. Leading Western European Governments last month agreed to refuse export of arms shipments from their territories to Guatemala. You should cite any specific assurance you have on this point.

3. It has now been established that these controls are insufficient and it will be necessary to supplement control program by preventing use of ships of free world to transport arms to Guatemala. Arrival Swedish ship *Alfhem* in Guatemala on May 15 with some 2,000 tons arms loaded at Stettin April 18 illustrates capacity international Communist movement to vitiate cooperative efforts of free world by simply loading up entire ship at Communist-controlled port for clandestine delivery. Market value these arms, if only light weapons and munitions are involved, has been estimated at $10 million by our military authorities and considerably higher if tanks and planes are involved. This is large sum for nation whose annual military budget is less than $7 million and suggests Soviet's long term purposes in arming Communist power in Central America. Department now has information two more ships, which may carry flags of one or more of countries to which you accredited, are on their way to Guatemala with arms from Soviet orbit.

4. Arrival these ships or others carrying more arms for Guatemala would further augment Guatemala's preponderant military position in area. Guatemalan military and police forces, totalling 9,000 already overshadow combined forces of Honduras, El Salvador, and Nicaragua, numbering about 7,000.

5. This Government is anxious for cooperation of free governments in all possible measures to prevent use their flag ships in future arms traffic to Guatemala; for controls to be instituted to identify and report possible arms shipments for Guatemala on national ships; and for measures to be taken by governments themselves to divert or otherwise prevent delivery such shipments.

6. Guatemalan Government has forced strong measures by its flagrant abuse of system of international trade under which ships move freely and without hindrance because of presumed reliability of ships' documents. In connivance with Soviet orbit suppliers of the arms, it resorted to false documents misrepresenting nature and destination of cargo, false statements as to ships destination and a Swedish charterer who made public statement misrepresenting nature cargo. These tactics make it impossible rely on conventional means for determining contents ship destined to Guatemala and, in cases where suspicious circumstances exist, force actual inspection. Moreover tactics used by Guatemala in this case prejudice best interests all nations engaged in maritime commerce and would justify their filing vigorous protest with Guatemala against such abuses.

7. This Government would welcome cooperation Western maritime nations to end that if U.S. Naval patrols in Caribbean or Pacific approaches to Guatemala have reason suspect that ship approaching Guatemala carries arms and U.S. does not have time notify flag government, they detain it while U.S. Government clarifies its status and cargo with flag government.

You should attempt to obtain explicit consent of government to which you accredited to measures outlined preceding paragraph; otherwise indication of its tacit approval and willingness not to make formal protest if we do take such measures.[2]

Embassy London: This matter is being taken up with British Ambassador here and therefore you should not initiate discussions there.

DULLES

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[2] In a memorandum to Assistant Secretary Holland, dated June 3, 1954, Mr. Leddy and Mr. Hill stated that of the six countries (United Kingdom, France, the Netherlands, Spain, Sweden, and the German Federal Republic) whose governments had indicated their position in response to circular telegram 440, "none have explicitly agreed to our detention of their ships but none have objected," and that one other country (Finland) had requested use of a modified approach "limited to an expression of serious concern about the use of ships of friendly powers to transmit arms to Guatemala." (414.608/6–354)

PPS files, lot 65 D 101, "Guatemala"

Memorandum by Louis J. Halle, Jr. of the Policy Planning Staff to the Director of the Policy Planning Staff (Bowie)[1]

TOP SECRET [WASHINGTON,] May 28, 1954.

OUR GUATEMALAN POLICY

Major decisions affecting our Latin American policy are being made in an atmosphere of urgency generated by (a) the outbreak of a strike among United Fruit Company and Standard Fruit Company workers in Honduras, and (b) the delivery at a Guatemalan port of a cargo of arms from behind the Iron Curtain. The consequent haste in decision involves certain dangers which are already being realized and may be realized further in the absence of precaution:

(a) There is no time for preliminary staff-work to provide an adequate basis of information and thought;

(b) The concentration on what appears to be a local emergency may result in inadequate attention to larger considerations that are not local or short-range;

(c) The atmosphere of emergency breeds a disposition to exaggerate dangers, and this disposition is strengthened by the necessity of "making a case" in order to get effective action.

The purpose of this memorandum is to put into your hands (a) such intelligence with respect to the Guatemalan situation as can be assembled at short notice, (b) a brief account of the historic inter-American context in which the situation arises, including the complex of international commitments within the terms of which it has been our policy and pledge to act; and (c) opinion on the consequences of alternative policies.

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[1] In a brief covering memorandum, Mr. Halle noted that the drafting of this memorandum began on the afternoon of May 27.

I. *The Guatemalan Situation*

[Here follows a description of the Guatemalan economy.]

This typical underdeveloped country is now undergoing the social revolution that typifies underdeveloped countries generally in our time. That revolution is an expression of the impulse to achieve equality of status (a) for individuals and groups within the national society, and (b) for the nation-state within the international community. Social reform and nationalism are its two principal manifestations.

We see the same revolution at various stages of development in Asia and Africa. On our own side of the globe it has taken various acute forms in Argentina, Bolivia, and Mexico—less acute forms elsewhere. It has hardly manifested itself at all, as yet, in Honduras (before May 1), Paraguay, or Haiti.

In Guatemala historic conditions provide substantial fuel to fire the revolution. Foreign ownership of the elements of Guatemala's economic life, together with the pattern of its international trade, gives the Guatemalans a vivid and unwelcome sense of dependence on foreigners. This is not too galling with respect to foreign ownership of coffee plantations, for the owners are scattered individuals of various nationalities who lack collective means of exercising control over the country's economic and social life. The case is different with the utilities, the vital transportation and communication facilities, and the banana empire of the United Fruit Company (which is a monopoly). U.S. ownership is overwhelmingly predominant here.

Up to twenty years ago the United Fruit Company and the International Railways of Central America (now controlled by United Fruit) still practiced marked discrimination against native employees in favor of U.S. employees. Today the Fruit Company is, as it was becoming then, an agent of social betterment; but its past is not forgotten and what really counts is that, whether beneficent or maleficent in its practices, it remains the expression of Guatemala's economic colonialism.

The international Communist movement is certainly not the cause of the social revolution in Guatemala, but it has made the same effort there that it has made everywhere else to harness the revolutionary impulses—nationalism and social reform alike—and exploit them for its own purposes. In Guatemala this effort has been less successful than in Vietnam and perhaps no more successful than it was in Mexico twenty years ago under the regime of Lázaro Cárdenas. It has, however, been impressive in its success, all the circumstances considered. It has achieved a high degree of covert control over the reformist regime of President Arbenz and is dominant in the national labor movement.

The revolution in Guatemala is nationalist and anti-Yanqui in its own right. It is, in its own right, a movement for "social justice" and reform. If the international Communist movement had gained no foothold at all in Guatemala one might expect that the United Fruit Company, the Railways, and the Electric Power Company of Guatemala City would still be the victims of persecution in Guatemala, and that the U.S. would thereby be presented with diplomatic problems of a serious nature. All this is merely aggravated by the participation of Communism, which supplies a leadership and a body of tactical doctrine beyond the capacity of native resources alone.

More serious in its implications is the use that the international Communist movement might make (or be making) of Guatemala as a base from which to operate against the political and social structures of other Latin American states, and from which to organize sabotage of physical installations that contribute to the defense of the Hemisphere. It is the projection of the Communist will from Guatemala across its borders that properly gives us the chief cause for concern.

I attach Intelligence Report No. 6185 of April 30, 1953, on "Guatemalan Support of Subversion and Communist Objectives (1950–1953)".[2] The intelligence that it contains is of activities that do not appear to differ substantially from the normal operations of the Balkan-type intrigue that goes on all the time, and has for decades past, among the Central American states. It is quite normal for Central American political parties and governments to conspire covertly against one another across the international borders. To a Central American politician the obstruction of an international boundary is merely like the net in tennis: it makes the game more sporting. This kind of conspiracy is the expression, in fact of what appears to us sober *Norteamericanos* to be a frivolous temperamental necessity. One expects it, and the Intelligence Report confirms it. The participation of Communism, however, gives it a sinister character that it would not otherwise have.

It is against this background that one must view the two events which, in this month of May, have aroused our alarm.

1. The first was the initial conspicuous manifestation of social revolution in the hitherto stagnant Republic of Honduras, bordering on Guatemala, in the form of a strike that paralyzed the operations of the United Fruit Company and the Standard Fruit Company. That conditions in Guatemala influenced this development is virtually to be assumed. The plantations owned or serviced by the United Fruit Company on the Gulf of Honduras are scattered on both sides of the boundary between the two republics, which boundary would not be apparent to an airplane flying overhead. Until a few years ago, in fact,

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[2] Not printed (PPS files, lot 65 D 101, "Guatemala").

the location of the boundary was a matter of opinion, since it had not been demarcated and was in controversy. The local farmers were unsure of their own nationality, gratified the tax-collectors of both countries, and had resigned themselves to being policed alternately by patrols of the two respective armed forces (which had the salutary habit of fleeing from each other at sight).

With social warfare, marked by repeated strikes, being waged in the banana plantations on one side of the border, one might expect and even assume that the fever would sooner or later communicate itself to the plantations on the other side of the border. There are no automobile roads or railways that traverse this border, but mules and men go back and forth without hardship. It would be surprising, moreover, if the Communist-controlled labor-union harassing the United Fruit Company on the Guatemalan side denied itself any reasonable opportunity to promote the harassment of the United Fruit Company on the Honduran side. Finally—if only because intrigue is the Staff of Life for Central American politicians—one would expect individual Guatemalan officials or even the Guatemalan Government itself to become involved here or there, in greater degree or less.

The reasonable suspicion of some Guatemalan complicity in the Honduran strike, however, has not been supported as yet by any evidence in the form of hard facts. Our efforts to discover such facts have led us floundering through rumours and reports for which we could get no substantiation. Our main sources of information have been . . . which has proved itself neither reliable nor altogether disinterested, and . . . which is not disinterested and has been confused or confusing on some points.

Our Embassy in Tegucigalpa (Honduras) manifested alarm, almost from the beginning of the strike, at the prospect it conceived of an armed attack by Guatemala on Honduras. Specifically, the Embassy saw in the dispatch of Honduran troops from the garrisons of Tegucigalpa to the strike-bound area, where they were needed to keep order, an invitation to the Guatemalan Army to march on Tegucigalpa. Our Ambassador[3] had just arrived in Honduras and presumably relied largely on his experience in strife-torn China, which was I believe the only foreign experience he had had. His able deputy[4] was also just off the 'plane, having come from Djakarta. (Old Vice Admiral Johnson used to criticize the Department for this sort of thing, pointing out that the Navy never changed both the Captain and the Executive Officer of a battleship at the same time.)

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[3] Whiting Willauer. He was appointed Ambassador to Honduras on Feb. 5, 1954; he arrived in Tegucigalpa and presented his credentials on Mar. 5.

[4] Wymberley DeR. Coerr.

It was at this point that the intelligence services and experienced officers in the Department could have made a useful contribution in "staffing" the situation. Events moved with such speed and drive, however, that subordinate officers who were caught up in them felt that it was "theirs not to reason why. . . ." Otherwise they might have pointed out that the deterrent to armed attack within Latin America is not in any balance of military powers but in Article 3 of the Rio Treaty, which obligates the U.S. to stop any such attack. This, and not the local garrison, was the shield that defended Tegucigalpa; it virtually insured that no armed attack would be launched.

The unfounded alarm, however, created an atmosphere of emergency in our Government and, communicated to the President and the NSC, led to immediate preparations for meeting a Guatemalan armed attack with U.S. military force.

2. It was in the exhilarating atmosphere thus created that news of the second event was received in the Department. This was the arrival at a Guatemalan port of a Swedish steamer with 1900 or 2000 tons of arms from behind the Iron Curtain for delivery to the Guatemalan Government. What the nature of these arms were we did not know then, nor do we now; although it is evident that any elaborate armed equipment would be useless to the Guatemalans in the absence of special training in its use.

At this point we needed, as we still need, an assessment by military intelligence and OIR of the nature and magnitude of the danger to our security interests that this represented. I have asked OIR/DRA to gather some material on this jointly with G–2. Meanwhile, we should bear in mind that the Guatemalan Army has all along had the capability, in our opinion, of whipping the Honduran Army or even the Honduran, Salvadoran, and Nicaraguan Armies together in any trial of relative strength. This estimate has mere academic significance, for the most part, because of the Rio Treaty.

At a moment, however, when we were preparing for a Guatemalan armed attack on Honduras the news that these arms had been delivered naturally took on added significance. The Department issued a statement[5] "that this is a development of gravity". The President announced that it was "disturbing". The Secretary at his press conference[6] said that it made Guatemala dominant in Central America. The newspapers carried headlines such as: "Dulles Sees Peril to Panama Canal" (*N.Y. Times*).

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[5] Press release 260, dated May 27, 1954; for text, see Department of State *Bulletin*, May 31, 1954, p. 835.

[6] Presumably the Secretary's press conference held on May 25, 1954; for text of the Secretary's remarks, see *ibid.*, June 7, 1954, pp. 873–874.

At the same time, unconfirmed reports of rumors reached us of two other shiploads of arms from behind the Iron Curtain, perhaps already on the way. We were told that one such shipload might be waiting offshore to move into the dock when the Swedish ship left.

We moved swiftly to prevent the unloading of the Swedish ship, but were unsuccessful. We also took a decision to prevent any further such shipments, even if this should necessitate our use of force on the high seas against friendly foreign flag vessels in violation of international law. In a memorandum of May 20 to Assistant Secretary Holland (copy attached)[7] the Acting Legal Adviser[8] stated: ". . . if the United States were to intercept and escort by force any ships in Guatemalan territorial waters or on the high seas to an American port, there would be no legal justification for such action either under the Rio Treaty or under the United Nations Charter. Such action would constitute a violation of international law, and could be considered an act of war by the countries whose ships were intercepted, and by Guatemala (at least if the interception occurred in that country's territorial waters)." Nevertheless, on May 22, the following decision was made (quoted from S/S–R's Top Secret Summary of Decisions[9] of May 25):

> "*Foreign Ships Transporting Arms to Guatemala*—The Secretary recommended to the President, and obtained Presidential approval, of the following policy with respect to any vessel on the high seas sighted by the US Navy and suspected of transporting arms to Guatemala; 1) if time permits, we shall attempt to persuade the ship's Flag State to divert it to Panama for inspection; 2) if time does not permit the preceding step, our Navy shall detain the ship while we attempt to persuade its Flag State to divert it to Panama for inspection; 3) if neither of the preceding steps is successful, our Navy should, using force as a last resort, escort the ship to Panama for inspection."

Even in the absence of relevant intelligence materials one may offer certain conclusions regarding the effect of this shipment on our national security interests:

(*a*) We have been withholding military equipment from Guatemala and have been concluding military agreements with Guatemala's neighbors that would call for supplying them with such equipment. This policy was calculated to create dissatisfaction in the Guatemalan Army with the pro-Communist orientation of the Guatemalan Government. The acquisition of arms from behind the Iron Curtain is calculated to neutralize our policy in this respect if those arms are put into the hands of the Guatemalan Army.

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[7] Not printed as an attachment; a copy of the memorandum is also in file 714.00/5–2754.

[8] Benedict M. English.

[9] File of summary of major decisions made by the Secretary of State and the Under Secretaries of State for the period 1954–1955, as retired by the Executive Secretariat, lot 61 D 258.

(*b*) If some of the arms are, alternatively, smuggled to dissident groups in neighboring countries they might play a decisive role in any attempt to overthrow the governments of those countries or disrupt civil order. (I have asked OIR/DRA to get together with G–2 for an estimate of (i) the possibilities of successful smuggling, (ii) the precautions against it that may be feasible, and (iii) the amount of smuggling that might have how much effect, etc.)

(*c*) The fact that Guatemala can and does buy arms from behind the Iron Curtain in defiance or contempt of the U.S. may hurt our prestige in the Hemisphere and elsewhere. It also sets a bad example inside the Hemisphere, suggesting alternatives to dependence on the U.S.

(*d*) The shipment has a favorable effect on U.S. security interests to the extent that it arouses other Latin American states to the danger posed by Communist influence in Guatemala.

Since the above was written I have received a one-page memorandum prepared in OIR/DRA, which I attach[10] and from which I draw the following. In reply to the question, "What is potential of shipment with respect to subversion outside Guatemala? Possibilities of smuggling, etc.," G–2 has replied:

> At present G–2 feels that the effect would be largely psychological. G–2 doubts that the Guatemalan Government will dispose of any of the arms now. They may do so later when they feel more secure.

In reply to other questions it has offered the following:

> G–2 and air force intelligence are of the opinion that there is no immediate military threat to the safety of US. Guatemala's air force is at present qualitatively inferior to that of Honduras and Nicaragua.
>
> Later, May 28, REW, G–2, called me and informally stated that because of training and technical factors matériel received would not substantially increase Guatemala's military capabilities.

At the same time that we have (*a*) prepared to meet an armed attack by Guatemala on Honduras, and (*b*) issued orders to our naval forces to prevent the arrival in Guatemala of any further shipments of arms, we have taken other steps designed to elicit the concurrence of other American states in the actions we are taking, may take, or may wish to take. Our embassies have discreetly inquired of the governments of the other Central American states, Mexico, and Panama whether they would request action by us to prevent further shipments. Favorable replies have been received from Costa Rica, El Salvador, Honduras, and Nicaragua. We have also been sounding out other American governments to determine the degree of support which might be forthcoming for a proposal that collective action on the arms-shipment be taken under Article 6 of the Rio Treaty, which would require an immediate Meeting of Foreign Ministers of the American Republics (the "Organ of Consultation"). The *Chronology of Events* attached to this memorandum lists these actions.[11]

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[10] Not printed.

II. *The Context of Inter-American Agreements*

[Here follows extensive discussion of the historical background of the inter-American policy and commitments of the United States.]

III. *Policy Alternatives.*

Our main policy alternatives with respect to the Guatemalan situation, in the light of the above, are:

(1) To invoke Article 6 of the Rio Treaty now and seek to carry the matter through by obtaining at least 14 Latin American votes (out of 19) for effective action by the U.S. and others to (a) do away with the covert Soviet political aggression in Guatemala, or (b) remedy whatever the situation is that constitutes a threat to the peace of America;

(2) Determining that collective action won't work and that the national safety requires us to take decisive measures now, to conclude that the corollary to a failure of collective responsibility is a return to unilateral intervention and to act accordingly;

(3) Determining that an attempt to get collective action now is too risky and that there is no imminent danger to our national safety, to adopt a policy of watchful waiting in the expectation that if the situation gets worse the chances of getting effective collective action will thereby be increased.

The key to a wise choice among these broad alternatives lies in the answer to two questions: (1) What is the magnitude and imminence of any danger that the present situation holds for us? and (2) How much support for collective action can we expect from the rest of the inter-American community?

(1) As to the first question, the evidence indicates no present military danger to us at all. Although we read public references to the facts that Guatemala is three hours' flying time from the oil-fields of Texas and two hours' flying time from the Panama Canal, we may console ourselves that Guatemala's capability for bombing either is nil. The recent shipment of arms makes no difference to this conclusion, nor would repeated shipments.

Guatemala, moreover, may confidently be expected not to launch an armed attack in the direction of the Panama Canal or in any other direction, since under Article 3 that would at one stroke remove the legal and political impediments which now prevent us from dealing decisively with the situation. If Guatemalan military units on the Honduran border should go berserk and make a dash for Tegucigalpa our policy problem would be solved without military danger to ourselves.

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[11] The referenced chronology is not printed as an attachment.

and the consequence would be the elimination of any military threat that Guatemala may now offer her neighbors.

The real and direct threat that Guatemala poses for her neighbors is that of political subversion through the kind of across-the-borders intrigue that is a normal feature of the Central American scene. The danger is of Communist contagion and is most immediate with respect to Guatemala's immediate neighbors. The Communist infection is not going to spread to the U.S. but if it should in the fullness of time spread over much of Latin America it would impair the military security of the Hemisphere and thus of the U.S.

The infection could spread by intrigue supplemented by the smuggling of arms—although I note from the attached memorandum that G–2 expects the newly acquired arms to remain in Guatemala for the present. It could also spread through the example of independence of the U.S. that Guatemala might offer to nationalists throughout Latin America. It might spread through the example of nationalism and social reform. Finally and above all, it might spread through the disposition the Latin Americans would have to identify themselves with little Guatemala if the issue should be drawn for them (as it is being drawn for them), not as that of their own security but as a contest between David Guatemala and Uncle Sam Goliath. This latter, I think, is the danger we have most to fear and to guard against.

(2) How much support for collective action can we expect from the rest of the inter-American community? I have asked OIR for an estimate and it is being prepared. Meanwhile, I call your attention to the attached OIR/DRA memorandum of this date entitled "The Caracas Resolution on Communist Intervention in the Hemisphere".[12]

The nationalistic and reformist elements in the Guatemalan situation have hitherto loomed larger for the Latin Americans than the element of international Communism. They believe that we exaggerate the latter for our own purposes, and this belief is not weakened when we meet it with redoubled protestations. The United Fruit Company is a symbol of colonialism in their eyes which they equate with other like enterprises within their own respective jurisdictions. Under the circumstances, the more we have viewed the Guatemalan situation with alarm the more they have tended to view it with complacency. (There is a parallel, here, in the respective attitudes of the U.S. and India towards Indochina.) The same thing happened in the case of the U.S. vs. Argentina. The disposition develops among the Latin Americans to look upon the whole business as a David–Goliath contest in which they identify themselves naturally with David. (See attached OIR memorandum of this date[13] on the growth of Societies of the Friends of Guatemala.)

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[12] Reference is to Resolution XCIII, adopted by the Tenth Inter-American Conference; see footnote 2, p. 1093. The memorandum is not printed.

These inclinations of the Latin Americans are in part masked when it comes to a conference like that of Caracas, since we are able to put considerable indirect pressure upon them to get their votes. But the 17 votes for our anti-Communist resolution at Caracas were granted only after the resolution had been watered down to the point of saying virtually nothing, and then grudgingly. The speeches indicated that there was more fear of U.S. interventionism than of Guatemalan communism. The pressures we brought to bear were resented and the scars remain. We should not, therefore, be deceived by the fact that 17 out of 19 were officially "for us".

Without having an OIR estimate on this I can only guess. My guess is that under present circumstances we could hardly win more than a Pyrrhic victory in a meeting of the Organ of Consultation, obtaining fourteen votes for relatively innocuous measures only by putting the thumbscrews on our neighbors. I doubt that it would be worth it in terms of the consequent further deterioration of our relations with Latin America in general. However, we ought to have, and promptly, a very thorough OIR estimate on this.

If the above analyses are sound the conclusion must be that the time is not ripe for collective inter-American action under the Rio treaty. This conclusion is reinforced by the indications that the situation poses no immediate danger for us. The conclusion raises the question, however, of what policy we should follow to expedite the ripening of time.

In this connection it seems to me that the two events which have so aroused us are as if calculated for our advantage. In the absence of undue excitement on our part they are bound to arouse alarm among Guatemala's neighbors, which alarm would tend to communicate itself throughout Latin America. If other like events ensued, the alarm would increase—but we would not ourselves be directly endangered. The Latin Americans would begin to ask whether the U.S. could be counted on to defend them against this growing menace. At that point they would be in the suppliant position vis-à-vis us rather than ourselves being suppliants to them. And this would be proper, for their danger is the greater. We could at this point act the part of the big brother who was not scared for himself but would stand by his small neighbors and live up to his commitments.

But if we present, instead, the spectacle of the elephant shaking with alarm before the mouse, if Guatemala disturbs us by gaining military dominance in Central America and imperilling our Canal in Panama, then the prestige of underdog Guatemala will be greatly enhanced throughout Latin America and Asia, and Latin American bosoms will (secretly or otherwise) swell with pride at the spectacle of one of the least among them actually arousing us to alarm for our own safety. Our own prestige and influence will be correspondingly diminished and the time will not ripen as we would wish it to.

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[13] Not attached to source text.

We could be quite complacent about the Indochinese situation if only we could afford to let it get worse until the corresponding alarm in India and Indonesia made it possible to deal with that situation by really effective united action. Unfortunately, our danger there is extreme and we cannot be complacent about allowing it to get worse. The Guatemalan situation, however, can safely get worse and, if one leaves historical caprice out of account, cannot get better until it does get worse.

If we should adopt, instead, the second alternative of intervening unilaterally with whatever force was necessary we would, in effect, be making a colony of Guatemala that we could maintain only by continued force, and by so doing we would turn all of Latin America against us to the advantage of the international Communist movement. If our intervention was less than decisive the Argentine experience would be repeated and we would have strengthened Communism in Guatemala while antagonizing Latin America generally.

It would seem to me wise for us to countermand the present orders to our naval forces in the Caribbean and, for the rest, to take a more relaxed attitude generally. In this connection we ought also avoid needlessly alarming and arousing our own public, for that would end by making the pursuit of a considered policy impossible.

363/5–2954: Circular telegram

The Acting Secretary of State to Certain Diplomatic Offices in the American Republics[1]

SECRET WASHINGTON, May 29, 1954—6 p.m.

442. Inform Govt at highest level that US believes immediate consideration should be given to holding consultative meeting under Rio Treaty, Article 6, to consider situation created by extensive penetration Guatemalan Govt by international communist organization and recent clandestine deliveries arms from Soviet orbit to Guatemala. US

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[1] Drafted by Assistant Secretary Holland, Ambassador Dreier, Director of the Office of South American Affairs Atwood, and Director of the Office of Middle American Affairs Burrows; signed for the Acting Secretary by Mr. Holland. Sent to diplomatic offices in the American Republics, except Guatemala City and Rio de Janeiro; repeated for information to the Embassies in Guatemala City and Rio de Janeiro, and also to USUN in New York.

feels consultative meeting should be called only if required ⅔ majority (14) agrees to support action under the Rio Treaty as outlined below. We feel this majority assured. FYI however your approach must not be such as will commit US to calling meeting. End FYI.

Our idea is that meeting, if held, should be called by US for about July 1, be brief, and confined to single topic and adoption of one main resolution. Although Uruguayan Govt has not been consulted, US prefers Montevideo as site.

US would propose that meeting adopt resolution covering following points:

1. Finding that international communist organization has achieved extensive penetration of Guatemalan institutions; that in this context, recent covert movement of arms from iron curtain countries to Guatemala has created present threat to sovereignty and political independence of other American States, endangering peace of America; and that any further substantial shipments of arms to Guatemala would further endanger peace.
2. Recommendation that American Republics immediately take measures necessary to prevent further shipments of arms to Guatemala and travel of communist agents to and from that country, and inform SC of UN of such measures. (Under this recommendation US visualizes concrete action such as detention and inspection of ships and other means of transport.)
3. Recommendation for continued exchange of views and info re present danger and means of maintaining peace, security of continent.
4. Call to Guatemala to eliminate agents international communist organization and resume rightful place as member American nations dedicated defense America against all forms foreign intervention.

Request early expression views of Govt on holding meeting and proposed resolution outlined above.

Main points to stress to Govts are:

1. Guatemala is one of several points of current conflict between Soviet communism and free nations throughout the world. Situation constitutes test as to whether international communist organization can achieve establishment communist controlled state this hemisphere. Communist success Guatemala would therefore have worldwide significance as demonstration ineffectiveness regional organizations of free nations and power of communist forces establish subservient regimes even beyond immediate sphere of communist military power. Communist world hopes demonstrate inability of American nations to resist subversive penetration by joint action and thereby discredit OAS, the oldest and most effective regional organization.
2. Delivery on *Alfhem* of arms known to have come from communist controlled territory offers further evidence Moscow has chosen Guatemala for special effort, having in mind its small size, proximity to Panama Canal, fluid internal political situation, and opportunity for communist agents to seize leadership and disguise their work as genuine Guatemalan nationalistic campaign against United Fruit Company.

3. While every important US interest in Guatemala including UFCO is under attack, our concern about communist penetration would be just as great if this were not true. In defending US enterprises in Guatemala we have followed clear and consistent policy established in other similar cases, namely, representations requesting due process of law and prompt, adequate and effective compensation for expropriated properties. Prior to presentation UFCO claim, US formally and publicly proposed it be settled by arbitration or adjudication by international tribunal. This proposal still stands. Guatemala has ignored this proposal and on contrary attempted to obscure issue of Communist penetration by constantly dragging in Fruit Company dispute.

4. Brief of evidence[2] re extent and nature communist penetration Guatemala being air mailed. Analysis reveals in Guatemala all signs which have identified similar occurrences elsewhere under direction Kremlin including methods of achieving initial penetration, training of leaders, extensive use of popular front organizations, blind adherence Moscow party line. While preserving appearance of small minority party, communists have here as elsewhere succeeded in substituting small informal communist controlled councils for lawful policy making bodies.

In addition to foregoing emphasize to Govt we have no quarrel with Guatemalan people, have no desire adopt measures more severe than those required combat problem posed by communist penetration in Guatemala. US is determined make every effort to achieve demonstration that collective procedures of OAS are adequate and effective in dealing with the major threat to continental peace and security implicit in the Guatemalan situation.

Embassy should note that our case rests upon the conclusion that in the present context of extensive communist penetration of Guatemala the delivery of substantial amounts of arms has created a threat to the peace. FYI This decision reached in order to secure support of those nations not now prepared to support more exacting finding contemplated by Res 93 of Caracas which would call for a collective determination that the international communist movement dominates and controls the political institutions of Guatemala.

FYI Guatemala undertaking intensive campaign among foreign offices oppose consultative meeting.

FYI Brazil has endorsed our position and will take lead in approaching Bolivia, Chile, Paraguay and Uruguay. Embassies those countries and Cuba, Venezuela should await special instructions. End FYI.

Murphy

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[2] Apparent reference to an earlier version of the study entitled "Penetration of the Political Institutions of Guatemala by the International Communist Movement: Threat to the Peace and Security of America and to the Sovereignty and Political Independence of Guatemala," prepared in the Department of State in June 1954 for submission to the Fifth Meeting of Consultation of Ministers of Foreign Affairs of the American Republics. The study was issued under date of July 9, 1954.

714.00/5–3054

The Second Secretary of Embassy in Guatemala (Hill), Temporarily in Washington, to the Ambassador in Guatemala (Peurifoy)

TOP SECRET [WASHINGTON,] May 30, 1954.

OFFICIAL–INFORMAL

DEAR MR. AMBASSADOR: As I write this on Sunday morning, you will have the telegram[1] we sent out yesterday afternoon instructing our missions in the other Latin American Republics to sound out the opinion of the governments to which they are accredited on holding an OAS meeting on Guatemala about July 1.

This represents an important modification of the tactics here as respects the Conference. You should know, however, that basic thinking is that if we obtain a resolution requiring the prevention of movements of arms and Communist agents to Guatemala, this will enable us to stop ships including our own to such an extent that it will disrupt Guatemala's economy. The idea is that this will accelerate one of two developments: either it will encourage the Army or some other non-Communist elements to seize power or the Communists will exploit the situation to extend their control. If the latter occurs, it is thought, it will justify the American community, or if they won't go along, the U.S. to take strong measures.

With this in the back of the policy making minds, a decision crystallized gradually over the past week to retreat from the former intent to call an OAS meeting to haul Guatemala up under the Caracas Resolution which in effect would have called for a finding by two-thirds of the States that Guatemala's political institutions were under the "domination and control of international Communism". With the *Alfhem* case fresh, it was thought more Latin Americans would go along under Article 6 of the Rio Treaty on a case of threat to the peace, based on "extensive penetration" of Guatemala by international Communism plus the arrival of arms from the Soviet orbit. It was also thought that a resolution calling only for prevention of movement of arms and agents would get more votes than one calling for economic sanctions or other tough action.

The opinion here seems to be that we have the necessary fourteen votes. Brazil is enthusiastic to the extent of undertaking to sound out and line up Uruguay, Paraguay, Bolivia and Chile. Our soundings there are being delayed until the Brazilians have had their say. Ambassador Zuleta Angel of Colombia was called in to see Mr. Holland last night[2] and said he was sure there would be at least sixteen or seventeen affirmative votes for our resolution as described in the circular. Ambassador Facio of Costa Rica was in later and said to be willing to urge his government to go along[3] and the Panamanian Ambassador[4] was called in this morning with results yet unknown to me.[5] Mexico, under Ambassador White's manipulation is more tractable than I would have thought; our cause has been helped by the Guatemalan Ambassador in Panama's boner in telling President Remón that the *Alfhem* arms even loaded at Veracruz, and allegation that seems to have made Padilla Nervo, the Mexican Foreign Minister, hopping mad.

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[1] Reference is to circular telegram 442, *supra*.

[2] No memorandum of the referenced conversation between Mr. Holland and Ambassador Zuleta Angel was found in Department of State files.

In the discussions in the Department which I have attended, I have pointed out what I consider some of the shortcomings of the present tactics: I have heavily stressed that external pressures, whether economic sanctions or more informal interruption of trade, should be supplemented by a more definite plan of action in the country or the Communists may well be the chief beneficiaries of the dislocations caused. Our problem of dislodging them then would perhaps have more serious proportions than is realized. I have also taken the line that if an OAS meeting is held a strong rather [than a?] wild resolution should be forced, if at all possible, because the resolution as now drawn[6] will not appear to represent a determined effort to eradicate Communism since it will not be apparent from it that commerce is to be disrupted. I fear that if we do interrupt commerce under the resolution we will be charged with unilateral intervention not only by Guatemala but also by other nations who will have voted for the resolution without specifically endorsing what is tantamount to economic sanctions. I have also argued that we are going to be in an odd position ourselves in stopping our own ships which carry the bulk of the commerce to Guatemala ostensibly to inspect them for arms and Communist agents after they have loaded at U.S. ports.

The telegram[7] which went to you yesterday asking for me to remain here was based on the week's developments. The OAS case, the current shipping cases, and the Honduran situation have added enormously to the workload and I have had to pitch in on all of them. Ambassador Dreier has now been assigned physically to assemble the "case" on Guatemala and Mr. Holland wants me to help him. I am also continuing to lend a hand to Ambassadors Donnelly and Pawley on their many projects, the most active of which to date has been the organization of our Naval surveillance of the Caribbean and the inspection of ships. The Department thus has a real need for someone with a speaking acquaintance with the problems of the area. On the other hand, I have pointed out that I am the only full time political officer on your staff and that in these critical times in Guatemalan affairs that is rather essential. It is a question of choosing between evils.

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[3] A memorandum of his conversation with Ambassador Facio and Counselor of the Costa Rican Embassy Jorge Hazera, by Mr. Holland, dated May 29, 1954 and not printed, is in file 714.00/5–2954.

[4] Roberto M. Huertematte.

[5] The Department's telegram 237, to Panama, dated May 30, 1954, from Mr. Holland, reads as follows: "Huertematte told me this morning he strongly favored our ideas re OAS action (Depcirtel 442) and would return Panama soonest to advocate them to President." (363/5–3054)

[6] For text of the referenced resolution, see the Department's circular telegram 459, dated June 5, 1954, p. 1157.

[7] Telegram 1067, to Guatemala City, dated May 29, 1954, not printed (124.143/5–2954).

Say hello to Bill[8] for me, and if it is decided for me to stay, extend him my sympathy!

Best regards,

JOHN C. HILL

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[8] Reference is to William L. Krieg, Counselor of Embassy in Guatemala City.

Editorial Note

On June 2, 1954, at 9:22 a.m., the President's Press Secretary, James C. Hagerty, called Secretary Dulles to inquire about the status of several foreign policy issues in preparation for the President's press conference scheduled for 10:30 a.m. that morning. Secretary Dulles recorded their conversation concerning Guatemala as follows:

> "4. Guatemala. If asked about our intention of getting the Caracas resolution injected, the Sec. said he is not up to date on that. We are checking up on ships. Doubt was thrown on the ships involved in the Guatemala incident because of the manifest. If asked re the President of Guatemala saying he would meet with the President if the President so invited him, the Sec. suggested ducking anything further on this. The issue is not between governments, but whether it is subject to control of international communism, which the Caracas Resolution said is a threat to security." (Eisenhower Library, Dulles papers, "White House Telephone Conversations")

The record of President Eisenhower's press conference is in *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954*, pages 526–533.

714.00/6-254:Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET PRIORITY GUATEMALA CITY, June 2, 1954—midnight.
[Received June 2—5:58 p. m.]

866. Re Embtel 816, June 1.[1] Toriello's proposal for appointment non-government commission by Presidents Eisenhower and Arbenz to discuss problems affecting relations between two countries obviously designed to gain time to permit lowering of recent local tensions which have caused grave concern in Guatemalan Government circles and have greatly heartened opposition. Let-down in tensions following crisis caused by arrival arms already noticeable and they can be expected to decline further when government press seizes upon omission of economic sanctions from agenda of proposed Montevideo conference[2] as evidence of strong Latin American support for Guatemala. Government's recent moves against opposition elements may also depress opposition morale. (Embtel 848, May 31.)[3]

Under circumstances, it is desirable steps be taken to maintain tensions. Two such steps which occur to me are:

1. President Eisenhower might care to reply to pre-arranged questions in his next press conference that he has made no proposal of any kind for discussion of differences between US and Guatemala but state Department proposal for direct negotiation or arbitration of UFCO claims was rejected by Guatemalan Government.[4] President might wish to add that he doubted visit by President Arbenz to Washington would be conducive to solution of problems in US-Guatemala relations as long as Communists retain their influence in Guatemalan political circles. These statements would scotch rumors of possible direct conversations between President Eisenhower and Ar-

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[1] Telegram 816 is not dated June 1; presumably the reference is to telegram 860, in which Ambassador Peurifoy reported that at a meeting with Foreign Minister Toriello that day to continue discussion of mutual problems begun May 24, 1954, the Foreign Minister stated that after consultation with President Arbenz he had decided that the best way to improve relations between Guatemala and the United States would be the adoption of the proposal made by President Eisenhower, on the occasion of Toriello's farewell call in January 1954, for the appointment of a non-governmental, neutral commission authorized to discuss all outstanding problems (714.00/6-154). For the memorandum of conversation between President Eisenhower and then Ambassador Toriello, dated Jan. 16, see p. 1095.

[2] Proposed site of the OAS meeting to consider developments in Guatemala.

[3] In the referenced telegram Ambassador Peurifoy reported renewed searches by Guatemalan authorities of the residences of opposition elements (714.00/5-3154).

[4] At a press conference on June 8, 1954, Secretary Dulles made a statement along the lines suggested by Ambassador Peurifoy; for text of the statement, see Department of State *Bulletin*, June 21, 1954, pp. 950-951.

benz and would make it difficult for Toriello to persist in his claim that President Eisenhower had proposed discussion of Guatemalan differences by an impartial board.[5]

2. US Government might within next few days give notice intention denounce reciprocal trade treaty with Guatemala. This would cause great uncertainty in Guatemalan Government, business and other circles as it would be interpreted as preliminary to application of economic sanctions by US Government. Denunciation would not only have immediate impact on political circles but would cause increasing concern during six-month period between denunciation of treaty and its expiration, particularly since new coffee crop will begin to move in December. Denunciation could be made on grounds that Guatemalan Government has repeatedly contravened terms of agreement and has not given us courtesy of substantive reply to its protests of these contraventions except in one instance in which its arguments were unsubstantial.[6] See Embassy Despatches 877, April 26, 1954; 773, March 10, 1954; 750 March 2, 1954.[7]

PEURIFOY

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[5] In telegram 870, from Guatemala City, dated June 2, 1954, Ambassador Peurifoy reported that Foreign Minister Toriello stated that he had changed his mind about requesting a presidential commission because he had received information that the United States "was holding consultations which had progressed very far toward a meeting of OAS." (714.00/6-254)

[6] The Department's telegram 1194, to Guatemala City, dated June 8, 1954, reads in part as follows: "Department desires avoid action suggestive of unilateral economic sanctions against Guatemala which would prejudice quick adoption our [anti-Communist] resolution at proposed consultative meeting; therefore does not favor denunciation trade agreement this moment." (714.00/6-254)

[7] The referenced despatches, none printed, all transmit to the Department of State copies of notes delivered to the Guatemalan Foreign Office by the Embassy pertaining to alleged violations of the United States-Guatemala Reciprocal Trade Agreement by Guatemala; they are filed, respectively, under 411.1431/3-254, 411.1431/3-1054, and 411.1431/4-2654.

714.00/6-554

The Officer in Charge of Central America and Panama Affairs (Leddy) to the Ambassador in Guatemala (Peurifoy)

TOP SECRET [WASHINGTON,] June 5, 1954.

OFFICIAL-INFORMAL

DEAR JACK: Your puzzlement over the Department's circular telegram 442 of May 29[1] as outlined in your letter of June 1[2] is readily understood. You should have received an individual message to clarify it, and I am only sorry that in the rush of things here (which, believe me, surpasses all understanding) we did not think to give this proper consideration.

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[1] *Ante*, p. 1149.

[2] Not found in Department of State files.

The policy outlined has a very definite purpose. First, by asking for advance OAS concurrence on a specific resolution, it is hoped that we may be assured of the votes in advance of a meeting and limit the meeting to the merest formality of approval, thereby avoiding a long drawn out debate and resulting bitterness and disunity. Second, by limiting the resolution to one authorization, believed to be the minimum step in the present circumstances, and one on which general concurrence is most likely to be obtained, it is hoped that success will be certain. Third, since the resolution is so drawn as to permit examination of traffic in both directions, it will be possible to halt effectively the normal flow of commerce. Fourth, this halting or interruption will be as effective as the most specific economic sanctions, which if proposed on their own would fall into certain opposition. Thus, in total, it is expected that we will achieve the ends desired by an easier and quicker route.

The matter was given pretty thorough consideration at the highest levels here and the decision is pretty solid. Further, it is one which has so far been easily sold to our colleagues in Washington missions, and replies from the field are so far entirely encouraging.

There is one thing which I think you can be assured of and that is that we are on the road of settling this problem, either by the means now devised or by some other means should these not succeed. There is 100 percent determination here, from the top down, to get rid of this stinker and not to stop until that is done. For this reason, our morale is rather high and I am sure the Embassy's will correspond as the methods utilized become more understandable.

With all our good wishes and regards,

Sincerely yours, RAYMOND G. LEDDY

363/6–554: Circular telegram

The Secretary of State to Diplomatic Offices in the American Republics [1]

OFFICIAL USE ONLY WASHINGTON, June 5, 1954—8:18 p.m.
PRIORITY

459. Verbatim text. Following draft resolution for your info and for use following receipt special instructions: [2]

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[1] Drafted by Ambassador Dreier; signed by Assistant Secretary Holland. Repeated for information to USUN in New York.

[2] In circular telegram 458, sent to the Embassies in Buenos Aires, Bogotá, San José, Habana, Ciudad Trujillo, San Salvador, Port-au-Prince, Tegucigalpa, Mexico City, Panama, Lima, and Managua, and repeated for information to USUN in New York, dated June 5, 1954, the Department instructed diplomatic representatives to transmit as soon as possible to the appropriate authority that portion of the text of the draft resolution beginning "and considering" and to determine whether the host government would support the specific text. "If so," continued the instruction, "summarize verbally whereas clauses as being U.S. idea of type which might be desirable and suggest Govt's ambassador here be authorized participate drafting definitive text this portion of resolution." (363/6–554)

June 4, 1954.
Final.

Whereas

The nations of America have long recognized a historic mission to create on this Continent a society in which man shall enjoy a greater degree of political liberty, economic well being, and social and cultural advancement, than has heretofore been achieved in the world.

The American republics, recognizing that the need for progress toward that high objective is still great, are determined to press forward toward more perfect political and social institutions guaranteeing to their citizens an increasing measure of personal freedom and happiness.

The measure of freedom already achieved by the peoples of this Continent should be continually improved and not impaired by extra-continental intervention.

The objectives of the International Communist movement, as demonstrated by the coercion and repression instituted in nations and areas subjected to its domination, are directly contrary to the aforementioned purposes of the American nations.

The American republics recognize that the ultimate goal of International Communism is the domination of the whole world by the unlawful processes of violence, subversion and conspiracy.

There is increasing evidence that the International Communist movement is attempting with special vigor at this time to establish a center of strength in the Americas from which to extend its influence throughout the Continent.

The danger inherent in the establishment of such a center of the International Communist movement in this Continent is to be measured not by the dimensions of the state which might fall victim to such an attempt but by the vast power and resources available to the world Communist organization.

On a number of occasions the American States have enunciated their determination to discover, condemn and eliminate from this Hemisphere every attempt by the International Communist movement to effect a penetration of the political institutions of any American State and to intervene in American affairs.

From the moment in which the American republics gained their independence, their statesmen and their peoples have proclaimed the necessity for eternal vigilance to maintain that independence in the face of any form of imperialistic intervention or encroachment from outside the Continent.

The Organization of American States is the appropriate collective instrument through which the nations of this Continent can coordinate their will and arrive at collective decisions, in accordance with existing treaties, to protect their independence, their sovereignty and their way of life.

The Inter-American Treaty of Reciprocal Assistance in Article 6 states that the Organ of Consultation shall meet in case of any fact or situation affecting the integrity of the territory or the sovereignty or political independence of an American State that might endanger the peace of America.

The Tenth Inter-American Conference recognized the present danger posed in this Hemisphere by the International Communist Movement, expressing the determination of the American States to take necessary measures against the intervention of International Communism and calling for consultation and the adoption of appropriate action in the event of the domination or control of an American State by the International Communist movement.

And Considering:

That a large, clandestine shipment of arms and munitions of war, despatched from European territory dominated by the International Communist movement, reached Guatemalan territory on board the S.S. *Alfhem* on May 15, 1954; and

That the quantity of arms so delivered has substantially increased the pre-existing preponderant military power of Guatemala in the Central American area; and

That evidence has been presented from various authoritative sources regarding the penetration of the political institutions of the Republic of Guatemala by the International Communist movement.

The Fifth Meeting of Consultation of Ministers of Foreign Affairs, as Organ of Consultation,

Finds:

That the International Communist organization has achieved extensive penetration of the political institutions of the Republic of Guatemala; a penetration so extensive as to create the danger that the Guatemalan state, like others which have been subjected by International Communism, will be deprived of its independence and become subordinated to the International Communist conspiracy to achieve world domination through violence and subversion.

That in this context the recent covert movement to Guatemala of arms and munitions of war from European territory dominated by the International Communist movement has created a threat to the sovereignty and political independence of other American States, endangering the peace of America; and

That so long as the penetration by International Communism of the Guatemalan political institutions remains unchanged and the preponderance of Guatemalan military force in the area persists, any further substantial movement to Guatemala of arms or munitions of war would seriously increase the danger to the peace of America;

Recommends:

That so long as the danger above referred to subsists the American republics undertake as preventive measures the detention and inspection of vessels, aircraft and other means of conveyance moving to and from the Republic of Guatemala, in order to insure against the further introduction of arms and implements of war into that country, as well as travel by agents of International Communism between that country and territory dominated by the International Communist movement.

That a commission comprised of representatives of (name 5 countries) shall assist the Member States in the application and coordination of the preventative measures specified above and shall recommend to the American Governments through the Council of the OAS the termination of such measures when the commission finds that the circumstances justifying them no longer exist.

That the American Governments continue an exchange of views and information regarding the presently existing danger and means of maintaining the peace and security of the Continent; and

Calls upon:

Guatemala, as a sister republic in the American family, to eliminate agents and collaborators of the International Communist movement, resuming her rightful place among the nations dedicated to the defense of the American hemisphere against all forms of foreign intervention.

DULLES

714.001/6–954

Notes of a Meeting of the Guatemalan Group, Held in the Department of State, June 9, 1954[1]

SECRET

Present: Holland, Pawley, Dreier, Leddy . . ., Woodward, Burrows, Atwood, Sanders, Wieland, Herron, Pearson

1. *Consultation on Draft Resolution*

(a) Holland reported a number of conversations with the Ambassadors here on the text of the draft resolution. However, it is too early to determine how many of the LA countries would accept it as it stands.

(b) It was agreed that AR under Dreier's direction should draft all outgoing cables on this subject that were not drafted by Holland himself. Also, AR will be responsible for all messages relating to the OAS meeting with appropriate checking with other officers of the Bureau.

(c) It was decided not to give the draft resolution general distribution to the LA or OAS Ambassadors in Washington until it breaks publicly.

(d) Wieland is to prepare guidance for USIA for use when the draft resolution appears publicly.

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[1] Prepared by Mr. Pearson.

(e) It was decided not to suggest to the LA countries that they have their Ambassadors negotiate the text here.

(f) Burrows was to cable Hill to tell the Costa Rican Government that if Figueres will agree to the text of the draft resolution, Hill will be in a position to put pressure on the Department to hasten the delivery of arms.

(g) Holland wanted to be sure that an answer was going out to Beaulac's query as to how many approvals we had for the meeting and the draft resolution.

2. *Consultation with LA Ambassadors to UN*

(a) Dreier reported a message was being sent to Wadsworth to instruct USUN to (1) give necessary background materials to the LA Ambassadors, and (2) stress the importance of the Guatemalan problem to us.

(b) Dreier was to talk with Key concerning the desirability of Holland's having a dinner for the LA Ambassadors to the UN in order to meet them and explain our position on the Guatemalan problem.

3. *Consultation with West European Maritime (WEM) Countries*

(a) Holland asked that three documents—Communism in Guatemala, the Communist Party in Guatemala, and Communist Penetration of Czechoslovakia and Guatemala—be sent to our Embassies in the WEM countries for their use in getting across the necessary background to the respective governments.

(b) Woodward was asked to talk with Merchant in an effort to get advice and help from EUR on this phase of our problem.

(c) It was decided that in our reply to Bonn concerning claims arising from our stopping ships we should hedge since . . . the source of any indemnification is not clear.

[Here follow paragraphs 4 through 7 dealing with procedural aspects of the proposed OAS conference.]

8. *Withdrawing Technical Assistance from Guatemala*

It was decided that we would not withdraw the nine technical assistance people and their families from Guatemala any time before the OAS meeting. Stassen and the Defense people had recommended immediate withdrawal. Holland pointed out that immediate withdrawal would be contrary to the main line he had followed with the LA Ambassadors that we would not take any unilateral economic or other steps before the meeting.[2]

9. *Preparation of the Case*

(a) It was decided that not only would the details of our case be made available to the LA countries in advance, but we would ask any Ambassador who might be useful to help in the actual preparation of the case. Zuleta was particularly anxious to help. If several participated, the parallel approach in the calling of the meeting would be strengthened.

(b) Dreier was to send a message to Peurifoy to get his views on what he thought the Guatemalans would present at the meeting, but the actual coordination and preparation would be done here in Washington.

(c) Sanders reported that some chapters of the case would be completed by the end of this week and ready for Holland's examination Monday, June 14. Holland said the case would not be completed until the eve of the meeting because of the constant adjustments which would have to be made.

(d) Holland put considerable stress on the need for us to develop the Guatemalan case in actual written outline so that we would be sure that our own case took account of all the points.

10. *Anticipating Guatemalan Maneuvers Before the Meeting*

At this point Holland read a memorandum. . . .

(a) Holland indicated we must be in a position to counter a move by Arbenz in which he may fire a few Communists and superficially reorganize his government.[3]

. . . .

11. *Economic Measures*

(a) Holland reported that the proposed statement by the President on lead and zinc, sugar, and Venezuelan oil would not be made. Instead, it has been decided that the President will make the decision on lead and zinc, followed presumably by a public statement on this subject. Holland would try to get some Congressmen and Senators to make statements opposing restrictive trade measures by this Government.

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[2] In a memorandum to Governor Stassen concerning the subject of withdrawing FOA aid from Guatemala, dated June 14, 1954, William M. Rand, Deputy Director of the Foreign Operations Administration, stated in part that "at the June 2 OCB luncheon I took the position that, by leaving our men in Guatemala, we had a line of communication, we had the friendship of the people, and we were doing a job of mercy with our hospital work and could possibly be valuable." (ICA Director's Files, FRC 56 A 632, "Latin America")

[3] A telegram from Guatemala dated June 9, 1954, stated that information had been received indicating that representatives of the Guatemalan Council of National Defense had called on President Arbenz ostensibly to thank him for procuring arms, but actually to declare the army's anti-Communist solidarity and to request that he rid the government of Communists. Another telegram from Guatemala reads as follows: "Officer corps torn between conflicting loyalties . . . and forthright declaration U.S. intentions may sparkplug opposition."

(b) Atwood called attention to an Eximbank announcement to be made tomorrow on subjects included in the economic memorandum.

(c) Atwood noted the Bolivian reference to their need of an economic program appearing with their reply on the OAS meeting.

(d) Atwood was to prepare a memorandum for Holland indicating whether or not we should get RFC to change its decision on the terms of the recent tin purchase from Bolivia which resulted in $350,000 less for Bolivia.

(e) Holland expressed the view that there would be no other economic price for the OAS than the Bolivian aid program.

12. *Congressional Consultation*

(a) Pearson was to arrange consultative meetings with the LA Subcommittees of the House Foreign Affairs and the Senate Foreign Relations Committees at which Holland was to (1) bring the Subcommittees up to date on developments, and (2) endeavor to get some of them to issue statements or make speeches opposing restrictive trade measures by the U.S.

(b) Burrows and Atwood were to brief Holland for these meetings.

[Here follow paragraphs 13 through 15 which deal briefly with publicity, other cases, and psychological attack, respectively.]

414.608/6–254: Telegram

The Secretary of State to the United States High Commissioner for Germany (Conant) [1]

SECRET WASHINGTON, June 10, 1954—3:50 p. m.

3487. You should attempt minimize further discussion with Government of claims possibly arising from detention ships suspected carrying arms to Guatemala (urtel 3756)[2] and stress problem of preventing further covert importation of arms into Guatemala requires prompt acceptance in principle of measures we proposed in Deptcirtel 440.[3] Should Government persist in raising question payment of claims, you should endeavor isolate this issue and press for explicit consent or tacit approval to basic proposition. In event assurance against liability on claims becomes condition precedent to Government's decision, you may then state Department studying U.S. legal and budgetary aspects of assuming responsibility for any actual losses resulting detention ships.

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[1] Drafted by Mr. Leddy and Mr. Hill; signed by Deputy Assistant Secretary Woodward. Repeated for information to Stockholm, Paris, Brussels, The Hague, Lisbon, Rome, Athens, Madrid, Oslo, Copenhagen, Helsinki, London, and USPOLAD in Trieste; by pouch to Bern, Guatemala City, and USUN in New York.

[2] The referenced telegram reported that the Federal Republic's attitude was cooperative, but that the Embassy would regard it as helpful if the Department would furnish and authorize the Embassy to convey answers to questions concerning the Federal Republic's responsibility for claims arising from detention of ships, and which other governments had agreed to the proposal. (414.608/6–254)

You are also authorized tell Government that principal Western maritime powers have been approached and like German Federal Government are now studying proposal, and request was sympathetically received in every country from which we have received reports. You should emphasize problem is one of urgency and express hope Government will see its way clear cooperate as requested without waiting for other Governments to act.

If you receive queries from officials why US has not taken action prevent US citizens from aiding Guatemala in procurement of arms, you may mention US taking such action.

DULLES

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[3] Dated May 28, 1954, p. 1137.

363/6–1254: Telegram

The Secretary of State to the Embassy in Honduras[1]

SECRET
NIACT

WASHINGTON, June 12, 1954—6:47 p.m.

533. OAS case[2] re Guatemala requires proofs as convincing as it is possible to obtain,[3] but it should be borne in mind that action will be taken by Foreign Ministers and not by a court of law. Re urtel 437,[4] the most important type of evidence direct or circumstantial will be

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[1] Drafted by Mr. Jamison; signed by Assistant Secretary Holland.

[2] Reference is to the effort of the United States to document a case against Guatemala for presentation to the OAS proving Guatemalan encouragement of Communist infiltration into Honduras and El Salvador.

[3] The Department's telegram 518, to Tegucigalpa, sent also to Guatemala City, dated June 4, 1954, reads in part as follows: "Department considers proof of connection between Guatemala and strikes in Honduras is of utmost importance in presentation case at proposed OAS meeting, as means of proving threat to peace and security exists from Guatemala affecting sovereignty and political independence of other Central American Governments. Embassy should therefore continue to press Honduran Government to prepare convincing case against Guatemala." (363/5–3054)

[4] In telegram 437, from Tegucigalpa, dated June 9, 1954, Ambassador Willauer stated in part the following: "Doing our best meet requirements evidence proposed OAS meeting but very gloomy as to evidentiary value as distinguished from circumstantial value material available from Honduras. Embassy attempting basic study Communist penetration Honduras along lines Department's Guatemalan study, but facts few, convicting and convincing evidence scarce." (363/6–954)

that which shows any kind of Guatemalan connection (preferably official but communist unofficial will be valuable), with events which have had the purpose or effect of undermining the stability of the Honduran government. Finding of proposed resolution (Depcirtel 459)[5] is that in context of communist penetration Guatemala, receipt *Alfhem* arms by that country has created threat to other American States. Therefore any data which demonstrates that Guatemala has overtly or covertly sponsored, supported or tolerated interventionist activities in other countries is needed. What is important at this stage is to show to extent possible any Guatemalan connection with items such as seven listed urtel 437. On basis Embassy reports Department has publicly referred to "interesting coincidence" in fact strikes occurred in area in which Guatemalan government sent three consuls subsequently declared *personae non gratae*. Reasons for action re consuls and lack authorization landing Guatemalan plane, as well as charge that map spotting UFCO properties found in plane must therefore be documented if at all possible. Other evidence, such as identification by name Guatemalans arrested or known to have been in strike zone instigating communist or strike activities, source and nature broadcasts clandestine radio stations agitating strikes, and press clippings speeches strike leaders reflecting party line highly useful. Hondurans should also develop facts re charge Guatemalan group sent to kidnap and murder exiled Guatemalan leader Castillo Armas. . . .

While it preferable Honduras present any hard facts this kind on its own, and you should encourage them do so, we should be in position use them if Honduras does not.

DULLES

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[5] Dated June 5, 1954, p. 1157.

414.008/6–1254

The Secretary of State to the Secretary of the Navy (Thomas)

SECRET [WASHINGTON,] June 12, 1954.

DEAR MR. SECRETARY: I refer to the request of the Department of State dated May 22, 1954,[1] to the Deputy Secretary of Defense, for assistance in preventing the delivery of contraband arms cargoes from Europe to Guatemala. It is my understanding that the Chief of Naval Operations is attempting to determine the identity of ships suspected of carrying such cargoes to Guatemala, and to divert them to Panama or to a United States port for inspection. I now wish to confirm conversations between officers of both Departments concerning orders by the Chief of Naval Operations to effect this purpose.

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[1] *Ante*, p. 1124.

It is understood by the Department of State that suspected ships are of three categories, each of which lists specific ships after consultation and agreement between the Department of State and Department of the Navy. Category A are those ships which, in most cases, have been reported as carrying arms to Guatemala or are known illicit traders; Category B are ships of Soviet or Soviet Bloc registry encountered in the Caribbean, on a course for or in the Gulf of Honduras. Category C are those ships which have sailed from Iron Curtain ports within the past sixty days and which enter the Gulf of Honduras.

With respect to the above-stated categories, it is the desire of the Department of State that the task units of the Department of the Navy will provide surveillance of designated areas and of the suspected vessels in accordance with the following instructions: If time permits, upon sighting of a vessel on the suspect list worked out jointly by the Department of State and the Navy, the Navy units should without detaining the ship inform the Chief of Naval Operations so that the Department of State may attempt to obtain authorization from the flag state or from the Organization of American States to order it to Panama or to a United States port for inspection. The Department realizes, however, that it will be very difficult, if not impossible, for a ship to be trailed from the limits of surveillance areas to the limits of the territorial waters of Guatemala pending the receipt of instructions from the Chief of Naval Operations. Therefore, if time does not permit the surveillance, it is recommended that the ships in the suspect category lists A, B, or C, be detained as they enter the Gulf of Honduras surveillance area on a course for Puerto Barrios, and that the Chief of Naval Operations be informed in order to obtain further instruction. The Department of State would then desire to be consulted at once, so that steps can be taken to persuade the flag state, or the Organization of American States if the Department of State is unable to obtain the approval of the flag state, to approve the detention of the ship and to divert the detained ship to Panama or a United States port for inspection. In the case of ships which refuse to identify themselves while on a course for Puerto Barrios in the surveillance area, they should be detained until the identity is established. The procedures for the three categories (or for non-suspect ships) can then be followed.

It should be pointed out that in case of suspected vessels the Department of State will seek prior permission to divert the suspected vessel to Panama. Only if the Department of State cannot secure approval for the detention of the ship from its own state, and if it cannot obtain a decision from the Organization of American States authorizing the detention of the ship, will the Department of the Navy forcibly divert the ship to Panama or to a United States port for inspection of its cargo, and in every case the Department of the Navy will act only with the concurrence of the Department of State.

It will be appreciated if the Navy will take the precaution to assure that the ships in the area will be properly instructed with respect to its duties in this surveillance action.

Sincerely yours,

For the Secretary of State
HENRY F. HOLLAND
Assistant Secretary

363/6–1354: Circular telegram

The Secretary of State to Diplomatic Offices in the American Republics[1]

SECRET NIACT WASHINGTON, June 13, 1954—10:50 p.m.

482. In conference today with representatives nine Latin American states Department accepted following changes which it feels will achieve greater support for text resolution quoted Depcirtel 459:[2]

(1) For three paragraph section beginning "That a large, clandestine" and ending "international communist movement" substitute the following:

> "1. That a large clandestine shipment of arms and munitions of war reached Guatemalan territory on board the M/S *Alfhem* on May 15, 1954; and
>
> 2. That said arms and munitions of war were despatched from European territory dominated by the international communist movement and have created a state of tension in Central America; and
>
> 3. That evidence has been presented from various authoritative sources regarding the penetration of the political institutions of the Republic of Guatemala by the international communist movement; and
>
> 4. That the above circumstances warrant the deduction that said arms and implements of war will be used to extend the influence of the international communist movement in the American continent."

(2) In paragraph beginning "That so long as" eliminate words "and the preponderance of Guatemalan military force in the area persists".

Amendments[3] adopted to obviate useless debate on extent of Guatemalan military superiority and to prevent precedent for any future inquiry into relative military strength of American States in other areas. Communicate changes to Government and use your discretion re disclosing reasons for adoption.[4]

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[1] Drafted and signed by Assistant Secretary Holland.

[2] Dated June 5, 1954, p. 1157.

[3] Department of State files indicate that further changes were made in the draft resolution; pertinent documents are in file 363.

DULLES

For AmEmbassy Rio de Janeiro only

Deliver urgently to Walter Donnelly stating Muniz recommends the amendments.

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[4] Department telegram 1278, to Guatemala City, dated June 15, 1954, stated that a draft resolution containing stronger measures than those proposed was almost certain not to obtain the necessary two-thirds vote for approval in the OAS, and that the Department therefore considered that it was advisable at this time to press for a limited objective, "believing if we obtain approval present resolution and situation in Guatemala continues to deteriorate, we in better position obtain stronger measures at subsequent stage." (363/6–1154)

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71. 00/6–1554

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

SECRET [WASHINGTON,] June 15, 1954.

Subject: Draft Press Statement by President on Guatemala

Attached as Tab A is a draft of press conference statement[2] submitted by the CIA to Mr. Hagerty for use at the President's press conference on Wednesday, June 16.

I most vigorously oppose the use of this statement.

Our whole plan for an OAS meeting on Guatemala is based upon the principle that the United States is undertaking to solve this problem without unilateral intervention, whether political or economic, in Guatemalan affairs. I have reiterated this again and again to every Latin American Ambassador and so have our Ambassadors in those capitals.

The CIA very understandably wants to bring both political and economic pressure to bear in Guatemala at this time. From their point of view I can see that this is logical. I object strenuously, however, because by following this course we will demonstrate that our assertions regarding the OAS meeting are not true. On the one hand, we would be avowing a laudable determination to forebear from all unilateral action and, on the other hand, through the President of the United States we would be indulging in the most direct unilateral political intervention.

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[1] Drafted by Mr. Holland.

[2] The draft statement reads as follows:

"The current crisis in Guatemala grows out of the attempt to convert its communist infiltrated government into an out-and-out communist dictatorship. A few days ago the regime officially announced the suspension of civil liberties and rounded up many prominent non-communists. Now we hear of an order directing that part of the recent shipment of arms from behind the Iron Curtain is to be distributed to communist cadres. Clearly these moves, all too familiar as steps in a communist takeover, are not being made in response to any external threat. The truth is that they are prompted by the increasing awareness of the communist threat and growing anti-communism of the enormous majority of the Guatemalan people and above all of the Guatemalan army. These same circumstances give us reason to hope and expect that the loyal anti-communists in the country will themselves clean their own house."

The results, in my judgment, would be disastrous to our proposed OAS meeting.

Attached as Tab B is a recommended substitute.[3]

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[3] Not printed.

Eisenhower Library, Hagerty papers

Excerpt From the Diary of James C. Hagerty, Press Secretary to the President

[WASHINGTON,] June 16, 1954.

. . . .

4. Guatemala—Allen Dulles and the CIA yesterday had prepared a brief memorandum[1] for the President which was sent first to the State Department and which I actually did not see. Their memorandum, however, had the President backing "their form of activity in Guatemala". Dulles rejected this memorandum because he was afraid if the President supported the CIA, it would lead to charges that the President and this country were supporting revolutionary activities within Guatemala and would place the President in the dangerous position of appealing to citizens of a foreign country to revolt against their leaders. Instead the State Department recommended (which was later approved by the President) that the President merely say that the current crisis in Guatemala shows a "disturbing tenor to change its Communist-infiltrated government into an out and out Communist dictatorship. A few days ago the regime officially announced the suspension of constitutional liberties. This was immediately followed by a wave of arrests of anti-Communists. Others are fleeing the country. A strict censorship has been imposed. There have been a number of killings. All of this is part of a similar pattern of a typical Communist take-over and is not in response to any external threat." The State Department also urged the President to emphasize that any attempt by internal Communism to penetrate into the western hemisphere was a serious matter and one which was being studied by the Foreign Ministers of the American states.[2]

. . . .

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[1] See footnote 2, *supra*.

[2] On June 16, at 9:37 a.m., Secretary Dulles spoke with Hagerty concerning foreign policy issues in connection with the President's press conference later that morning. With respect to Guatemala, the conversation was recorded as follows: "The Sec. did not see the final [press] statement, but what he saw was o.k. . . . It is all right to say we are having talks with Latin American countries." (Eisenhower Library, Dulles papers, "White House Telephone Conversations") The text of the President's press conference is printed in *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954*, pp. 566–574.

714.001/6–1654

Notes of a Meeting of the Guatemalan Group, Held at the Department of State, June 16, 1954[1]

SECRET

Present: Holland, Atwood, Colonel Clark, Jamison, Sanders, Wieland, Herron, Sparks, Warren, Pearson, Leddy, Pawley, . . .

1. *Draft Resolution*[2]

(*a*) It was noted that the following countries have approved the resolution in its entirety: Honduras, Salvador, Nicaragua, Costa Rica, Cuba, Dominican Republic, Haiti, Colombia, Venezuela, Peru, Bolivia and the U.S.

(*b*) Atwood was to check regarding a Uruguayan note[3] outlining proposed changes in the resolution.

(*c*) After talking with Andrade, Sparks was to get in touch with Rowell immediately to get Bolivian agreement to the considerandos.

(*d*) With respect to Brazil, Donnelly had called Holland to give Rao's views as follows:

(1) Rao proposed two changes in the operative parts of the resolution. If we agreed to these changes, Brazil would be a co-sponsor, would send telegrams to Bolivia and Chile urging them to become co-sponsors, inform Paraguay that she would be happy if Paraguay would go along, and inform Uruguay that she will be a co-sponsor.

(2) Rao urged July 6 as the date for starting the conference (Venezuela wants any time after July 7).

(3) Rao suggests the considerandos could be reduced in number but not in substance and have the same effect. This is not a condition for agreement to the resolution.

(4) He reported that the Brazilian Ambassador to Argentina says Perón had told him that he will attend the meeting only if it is a general case against Communism rather than a specific case against Guatemala.

(5) Rao believes that Ecuador's position reflects Argentine pressure (stemming from its support of Ecuador in the latest boundary dispute with Peru).

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[1] Drafted by Mr. Pearson.

[2] Reference is to draft resolution transmitted in circular telegram 459, June 5, 1954, p. 1157.

[3] No such note was found in Department of State files. However, a summary of the Uruguayan Government's suggestions concerning the draft resolution and the proposed OAS meeting is contained in telegram 188, from Montevideo, dated June 10, 1954, not printed (363/6–1054).

In a memorandum of conversation between Assistant Secretary Holland and Uruguayan Ambassador Mora, by Mr. Havemeyer, dated June 23, 1954, Ambassador Mora was reported to have confirmed the position of his government that it could not accept the draft resolution so long as it contained the present wording with respect to the detention and inspection of ships (714.00/6–2354).

(6) Rao suggested that we get out a statement of our views on the UFCO case. On this point, Holland asked that Leddy prepare a report on the history of the UFCO problem in Guatemala for transmission to all of the LA Foreign Ministers. He was to cable a summary of this report and state that the report itself would be sent by pouch.

Action With Respect to Brazilian Draft Changes

After Holland talked with the Secretary, it was agreed he would tell Donnelly (a) that the substitute language proposed for the "Calls Upon" clause is acceptable. The Brazilian language requests Guatemala to implement Resolution VIII, Section 1, of the Fourth Meeting of Consultation of Ministers of Foreign Affairs held in Washington 1951. (b) that with respect to the proposed change in the Recommendation section, we can accept the Brazilian language except for the phrase "any American state which is in present danger of becoming a center of the international Communist movement in the hemisphere" in place of which Donnelly should seek Brazilian agreement for the word "Guatemala".

(*e*) Holland stressed to the group the need to close off further changes in the draft resolution. Each time we accept a change it means that we must clear it with all the other countries.

2. *Plans in the Event Arbenz is Overthrown*

(*a*) Holland indicated that if Arbenz were overthrown, we would still go ahead with the Montevideo meeting but extend the date.

(*b*) Pawley reported that his *ad hoc* committee, made up of representatives of CIA and Defense, would meet today to work up a paper[4] outlining the steps we will take in the event the Arbenz government is overthrown. This paper would include the evacuation planning, recognition, possible economic aid to a successor government, etc. He asked that all members of the group give him any ideas they might have. Because of the similarity of this project with Woodward's assignment on "treatment of successor government",[5] it was agreed that Woodward should work with the Pawley group.

3. *Implementation of Preventive Measures*

It was agreed that Woodward would consider the two points raised by the Venezuelans in connection with their acceptance of the draft resolution and report at the next meeting.[6] These were (a) what would we do if the vessel we planned to stop had a naval escort of its flag country, and (b) would the area of search be as large as the Rio Treaty area (Holland thought the area should be considerably smaller).

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[4] Not identified.

[5] Mr. Woodward drafted a memorandum on the following subject: "Plan of action in the event that the Arbenz government is overthrown," dated June 23, 1954, which was circulated within the Bureau of Inter-American Affairs for comment; no copy of the memorandum was found in Department of State files.

[6] The notes of a meeting of the Guatemalan Group held at the Department of State on June 18, 1954, drafted by Mr. Pearson, read in part as follows: "Venezuela would not be asked to co-sponsor the [draft] resolution but would be asked to agree not to change the resolution without the unanimous agreement of the co-sponsoring group." (714.001/6–1854)

4. *Date of Meeting*

Holland noted that the Secretary could be available for the Montevideo meeting beginning July 6.

5. *Calling the Meeting Under the OAS Charter or the Rio Treaty*

(*a*) After considerable discussion, the group decided unanimously to fight for the use of the Rio Treaty and Holland (who had been absent during the discussion) heartily concurred.

(*b*) Since at the Sunday, June 13 meeting[7] with the Ambassadors Holland had indicated that he would convoke the meeting under either the Charter or the Rio Treaty if our legal position were equally strong under both, it was decided that L should render an opinion on the legality of our actions under each.

6. *Spanish Translation of "Guatemalan Labor Party"* [8]

Leddy reported that the Department's Translation Division had done a very inadequate job on translating this document. CIA was being requested to go over it in order to translate properly the Communist jargon. The decision against wide dissemination of the document at this time was maintained.

7. *Fisher's Daily Reports*

It was decided that the daily reports being prepared by John Fisher should be discontinued and that instead he should maintain a control on all of the same actions in the form most convenient to himself.

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[7] No record of this meeting was found in Department of State files.

[8] Reference is to a study originally prepared by Mr. Hill at the Embassy in Guatemala City; a copy was transmitted to the Department of State under cover of despatch 308, from Guatemala City, dated Oct. 9, 1953, not printed (714.001/10–953). The study was revised at the Department in May 1954, and subsequently released under the title "*The Partido Guatemalteco del Trabajo* (The Guatemalan Communist Party): A Basic Study."

Eisenhower Library, Hagerty papers

Excerpt From the Diary of James C. Hagerty, Press Secretary to the President

[WASHINGTON,] June 18, 1954.

In at 8:15.

Allen Dulles called early in the morning to tell me that his organization expected there would be an anti-Communist uprising in Guatemala very shortly. Officially we don't know anything about it. The story broke late Friday night.

. . . .

Editorial Note

On June 18, 1954, the forces of Lieutenant Colonel Carlos Castillo Armas, a Guatemalan army officer in exile, crossed the Guatemalan border from Honduras at three points in a movement aimed at overthrowing the government of President Arbenz. Numerous telegrams and despatches from Guatemala reporting the activities of Castillo Armas' followers are in file 714.00. For information concerning the reaction of the United States Government to the developments in Guatemala, see the statement released by the Department of State, dated June 19, in the Department of State *Bulletin*, June 28, 1954, pages 981–982.

Eisenhower Library, Hagerty papers

Excerpt From the Diary of James C. Hagerty, Press Secretary to the President

[WASHINGTON,] June 19, 1954.

Allen Dulles called me—and later Pete Carroll dropped in—to tell me that the situation in Guatemala as reported by the American press is greatly exaggerated. Press reports "bombing". As Pete Carroll, said, "There are no such planes in that part of the world. There have been a few homemade bombs dropped by Piper Cubs but that is about all." Expect that the Wire Services have very poor men in Guatemala and that they are overplaying the story. However, the State Department and Foreign Ministers of the other American countries are watching the situation very closely.

I think the State Department made a very bad mistake, particularly with the British, in attempting to search ships going to Guatemala. This was done obviously in an attempt to stop arms shipment to the country, but somebody in the State Department (maybe Dulles) forgot that the right of search of neutral vessels on the high seas is one which we ourselves oppose. As a matter of fact, we were at war with the

British in 1812 over the same principle. I don't see how with our traditional opposition to such search and seizure we could possibly have proposed it, and I don't blame the British for one minute for getting pretty rough in their answers. I don't see why we did not ask the British and other nations to cooperate and to clear cargo lists in their own ports rather than to have them suffer the indignity of a search of their own ships by a foreign power.

. . . .

Editorial Note

On June 19, 1954, the Guatemalan Government requested both the United Nations Security Council and the Inter-American Peace Committee (IAPC), an organ of the Organization of American States, to convene emergency meetings in order to take the necessary measures to stop alleged aggression against its territory by Honduras and Nicaragua, and to restore peace in the Central American area. For text of Guatemala's cablegram to the Security Council, dated June 19, 1954, requesting an emergency meeting, see UN document S/3232, printed in United Nations, *Official Records of the Security Council, 9th Year, Supplement* (April, May, and June 1954), pages 11–13. For additional information on Guatemala's requests and subsequent events, see *Yearbook of the United Nations, 1954* (New York, 1955), pages 96–99, and *Annals of the Organization of American States, 1954* (Washington, 1954) pages 239–245.

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum by the Director of Central Intelligence (Dulles) to the President

SECRET WASHINGTON, 20 June 1954.

The attached summary of the situation in Guatemala as of today is submitted at the suggestion of Mr. Allen Dulles.

For the Director of Central Intelligence
K. W. McMAHAN
Acting Assistant Director
Current Intelligence

[Attachment]

THE SITUATION IN GUATEMALA AS OF 20 JUNE

1. As of 20 June the outcome of the efforts to overthrow the regime of President Arbenz of Guatemala remains very much in doubt. The controlling factor in the situation is still considered to be the position of the Guatemalan armed forces, and thus far this group has not given any clear indica-

tion of whether it will move, and if so, in which way. If the Guatemalan army should move within the next few days against the Arbenz regime, it is considered to have the capacity to overthrow it. On the other hand if it remains loyal and if most of the military elements commit themselves to vigorous action against the forces of Castillo Armas the latter will be defeated and a probability of uprisings from among other elements of the population is considered highly unlikely.

2. The position of the top-ranking military officers is constantly shifting with daily rises and falls in their attitudes. This group has long proclaimed its strong anti-Communist feelings and its ultimate intention of doing something to rid the government of Communist influences. Various officers have declared themselves as willing to take action against the regime given just a little more time or just a little more justification. It is probable that the rising pressure of events will compel this group to declare its position, one way or the other, at any time from now on—although the possible result could be a split in the ranks. [There are unconfirmed rumors as of Saturday night to the effect that Colonel Diaz, the Chief of the Armed Forces, and some 40 officers had applied for asylum in various foreign embassies in Guatemala City, but these embassies have not yet confirmed this report.][1]

3. There were new defections on Saturday from the Guatemalan Airforce, one pilot flying out with his plane and several others obtaining asylum in the Salvadorian Embassy. The Guatemalan Airforce has thus far failed to produce any interception effort against the overflights by the Castillo Armas planes. However very heavy anti-aircraft fire is reported.

4. There is thus far no evidence to confirm the charges and propaganda of the Guatemalan regime of bombing attacks upon Guatemala. On the contrary there are eyewitness accounts of clumsy efforts to fabricate evidence of aerial bombardment (the home of Colonel Mendoza—one of the defecting airforce officers, was set on fire by the police). It is probable that some of the damage to oil storage facilities and other installations, attributed by the Guatemalan Government as well as by Castillo Armas, to bombing attacks is in fact the result of sabotage efforts on the part of Castillo Armas agents or other resistance elements.

5. There is considerable evidence of a determination on the part of the Guatemalan Government to mobilize and arm Communist-controlled student youth and labor (agriculture) organizations. At the same time there is evidence of a hasty attempt to mobilize additional strength for the army.

6. There are strong indications of mounting tension between the army and the *Guardia Civil*—the Communist influenced police organization.

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[1] Brackets in the source text.

7. We cannot confirm that either Puerto Barrios or San Jose has fallen to the Castillo Armas forces, but its is clear that there have been uprisings in these and other cities. A bridge on the key railroad line between Guatemala City and Puerto Barrios is reliably reported to have been damaged near Gualan.

Description of the Castillo Armas Movement

8. The action of Colonel Castiilo Armas is not in any sense a conventional military operation. He is dependent for his success not upon the size and strength of the military forces at his disposal but rather upon the possibility that his entry into action will touch off a general uprising against the Guatemalan regime. The forces of Castillo Armas entering Guatemala from Honduras are estimated to number about 300 men. These have now been joined by others from inside the country to make a total in excess of 600 armed men. (The majority of this number is equipped with rifles, sub-machine guns and 50 mm mortars. These weapons are non-U.S. manufacture.) Castillo Armas himself is expected to leave his command post in Honduras today and join one element of his forces near Jutiapa by plane, but thus far there is no word that an airfield has become available. From the command post which he proposes to establish at this location, he will endeavor to coordinate the activities of his other scattered groups throughout the country.

9. The entire effort is thus more dependent upon psychological impact rather than actual military strength, although it is upon the ability of the Castillo Armas effort to create and maintain for a short time the *impression* of very substantial military strength that the success of this particular effort primarily depends. The use of a small number of airplanes and the massive use of radio broadcasting are designed to build up and give main support to the impression of Castillo Armas' strength as well as to spread the impression of the regime's weakness.

10. From the foregoing description of the effort it will be seen how important are the aspects of deception and timing. If the effort does not succeed in arousing the other latent forces of resistance within the next period of approximately twenty-four hours, it will probably begin to lose strength.

Editorial Note

In a memorandum to the Director of the Policy Planning Staff, Robert R. Bowie, dated June 21, 1954, Jacob D. Beam of that Staff, stated the following with respect to a meeting held in the Office of the Assistant Secretary of State for Economic Affairs, Samuel C. Waugh:

"4. The Shipping Officers in E complained bitterly that they had not been previously informed regarding the U.S. decisions about the handling of foreign ships suspected of transporting Soviet Bloc military equipment to Guatemala. They said they are having to deal with complaints from all over the world. It was explained that these decisions were taken on the highest U.S. Governmental level." (PPS files, lot 65 D 101, "Chronological")

Editorial Note

On June 22, 1954, at 2:30 p.m., Secretary Dulles, Allen Dulles, and Assistant Secretary Holland met with President Eisenhower at the White House to discuss possible United States cooperation in replacing aircraft lost by Castillo Armas' forces. The President's daily appointment book for that date indicates that the meeting was off the record. According to the account presented in the President's memoirs, Assistant Secretary Holland opposed resupplying Castillo Armas with aircraft on the ground that if the action became known, Latin American countries would interpret it as intervention in Guatemala's internal affairs, and this would have an adverse impact on United States relations with those countries. The President stated further that he made the decision at the meeting to replace the aircraft through the country which had originally supplied this equipment to Castillo Armas' forces. For the President's account, see Dwight D. Eisenhower, *The White House Years: Mandate for Change, 1953–1956*, pages 425–426.

Editorial Note

In a memorandum of conversation summarizing the Secretary's staff meeting, held on June 23, 1954, at 9:15 a.m. in the Secretary's office, the Director of the Executive Secretariat, Walter K. Scott, recorded the following statement on Guatemala:

"Mr. Holland reported that the revolution in Guatemala was having serious anti-American consequences in a number of Latin American states. He was certain that it would affect our ability to secure a suitable resolution at the Montevideo Conference, if held. He stated further that it was our desire to maintain any consideration of this item before the Inter-American Peace Committee. He felt that this was *pro forma;* that its inability to act was so obvious that our support for using it would engender unfavorable opinion in the other States. He saw no action from this body adequate to arrest anti-U.S. feelings and thus help us at Montevideo. The tenor of his report was pessimistic. He felt that some strong statement or action on our part would be required to recoup the goodwill we had built up for our resolution. He had no specific recommendations to make at this time but his staff was devoting their continued attention to the matter." (Secretary's Staff Meetings, lot 63 D 75)

The Under Secretary of State for Administration presided at the meeting, which was attended by 15 other participants.

714.001/6–2354

Notes of a Meeting of the Guatemalan Group, Held at the Department of State, June 23, 1954[1]

SECRET

Present: Holland, Atwood, Burrows, Jamison, Sanders, Weiland, Herron, Sparks, Woodward, Warren, . . . Leddy, Pearson, Col. Clark, Dreier

1. *Security Council Action*

(*a*) Lodge informed Holland that the British and French representatives[2] to the Security Council are prepared to go along with a Soviet proposal that the Council send peace observers to Central America. Lodge believed that he would have to go along unless an OAS organization announced that it was planning to send observers.

(*b*) Holland later during the meeting called Lodge and told him the following: 1) our plans for action in the IAPC, which, if successful, would mean that that body would propose to send peace observers; 2) in his statement[3] opposing the Guatemalan request for further Security Council action he could say that this is a dispute involving charges of Guatemala on the one hand and denials by Nicaragua and Honduras on the other hand, that this dispute was being handled by an inter-American organization just as it should be, that Nicaragua and Honduras would accept observers from an inter-American organization but not from the Security Council where the Soviet veto was used to prevent reference of the Guatemalan charges to the OAS; 3) as a second part of his statement before the Council, he should emphasize that there is another far more fundamental problem, namely, the attempts by international communism to penetrate the Western Hemisphere. This problem also is under study in the OAS.

2. *Preparation for IAPC Meeting*

Since the IAPC was meeting this afternoon and since Lodge had made his call concerning the British and French attitude toward the peace observer proposal, it was necessary to plan the best course of action. The following actions were decided:

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[1] Drafted by Mr. Pearson.

[2] Sir Pierson Dixon and Henri Hoppenot, respectively.

[3] Apparent reference to Ambassador Lodge's statement made before the Security Council on June 25, 1954; for text, see USUN press release 1927, dated June 25, in Department of State *Bulletin*, July 5, 1954, pp. 29–31.

(*a*) Since Valle had, without instruction, sent a note[4] to the IAPC requesting that the Guatemalan charges be taken up, Holland called Willauer to tell him to persuade the Honduran Foreign Minister[5] 1) to give Valle the instructions[6] backing up the note which he had left with the IAPC and 2) to call Quintanilla direct concerning the Honduran position. Holland placed a call later to have Willauer ask the Foreign Minister to instruct Valle to ask that peace observers be sent by the IAPC.

(*b*) Holland called Sevilla-Sacasa and got him to agree to a plan whereby, after making the statement[7] which he had already prepared, he would request that peace observers be sent to all three countries; indicate that his country was always prepared to receive observers from an OAS organization but that he would oppose observers from the Security Council because of the Soviet veto; suggest that the Committee invite the three countries to send delegates to discuss the arrangements for the peace observation mission.

(*c*) Dreier was to talk with the Argentine, Mexican, Brazilian and Cuban representatives to the IAPC to persuade them to respond favorably to the request by Nicaragua and Honduras for peace observers and to say that they would recommend that their governments approve this proposal.

(*d*) Dreier was to persuade the Cuban representative to propose that the investigation begin with Guatemala.

(*e*) Burrows was to help Valle draft a note[8] to the Committee complaining of the bombing of Honduran territory by Guatemala and also to see that he got in touch with Sevilla-Sacasa.

3. *Draft Resolution*

Secretary Dulles would not approve sending notes to the Foreign Ministers in an effort to get their agreement in advance that no changes would be made in the draft resolution without the unanimous approval of the sponsoring group. He indicated that it would damage his prestige if some of these countries did not accept. Consequently, it was decided to send a message to each of our Ambassadors instructing them to obtain the oral agreement of the Foreign Minister to our proposal to be confirmed at a later date in writing. When a total of fourteen countries, including ourselves, have approved this proposal the meeting will be called.

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[4] For a summary and quoted portions of the referenced note, dated June 22, 1954, see *Annals of the Organization of American States, 1954*, p. 240.

[5] J. Edgardo Valenzuela.

[6] In a memorandum to Mr. Holland, dated June 23, 1954, summarizing a telephone conversation with Ambassador Willauer which took place at 11 a.m. on that date, Mr. Leddy stated in part that the Ambassador was asked "to see whether the Government there could be encouraged to send Ambassador Valle some instructions for the presentation of the Honduran case before the I–A Peace Committee." (714.00/6–2354)

[7] Reference is to the statement made by Ambassador Sevilla Sacasa before the IAPC on June 23, 1954, in which, *inter alia*, he denied the truth of Guatemalan charges against Nicaragua, explained that the rupture of diplomatic relations between the two countries resulted from Communist infiltration into Guatemala, and suggested that the IAPC's subcommittee on information should visit Nicaragua, Honduras, and Guatemala; a translation of the text of the Ambassador's statement is attached to 363.1/7–654.

[8] No such note was found in Department of State files.

4. *U.S. Plans if Armas Fails*

(*a*) Holland observed that the messages coming in from all over Latin America bear out Warren's observation at the previous meeting[9] that the revolution and particularly its failure would result in greatly lowered prestige for the U.S. in Latin America. Guatemala is more than ever the underdog and hence has very great appeal to all Latin Americans.

(*b*) As a general course of action we should take all steps possible to minimize the Guatemalan underdog position and we should also do everything possible to take the stigma surrounding the revolution off the U.S.

(*c*) The primary immediate actions discussed at this meeting were a) preparation for the IAPC meeting and b) advice to Lodge on the Security Council meeting, both of which were discussed above.

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[9] Reference to the meeting of the Guatemalan Group held at the Department on June 22, 1954; the notes of that meeting, by Mr. Pearson, record Mr. Warren as having "expressed the view that if Castillo Armas loses we will probably lose at Montevideo." (714.001/6-2254)

714.00/6-2354: Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

CONFIDENTIAL GUATEMALA CITY, June 23, 1954—4 p. m.
PRIORITY [Received June 23—11:33 p. m.]

1088. I called on Foreign Minister Toriello yesterday afternoon to discuss protection of American citizens during present emergency.

He endeavored assume offensive by again bringing up Department's press release of June 19,[1] and suggesting that I issue clarification. I said I was informing Department to best of my knowledge and would not consider clarifying earlier statements.

He also complained because yesterday Krieg had indicated to Chief of Protocol Garcia Galvez (on my instructions) that I was pained at President Arbenz's statement in his radio address June 19 (Embtel 1056, June 20)[2] that "President Eisenhower had scant regard for his high office . . ." and that I was sure President Eisenhower had never made any personal allusions to President Arbenz. Toriello said that in Washington he would not have sent Chocano to Department with such a message.

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[1] For text of a statement issued by the Department of State on June 19, see Department of State *Bulletin*, June 28, 1954, p. 981.

[2] Not printed (714.00/6-2054).

I replied that I was happy to have occasion to reiterate and emphasize personally what Krieg had said. I then repeated it. He asserted President Eisenhower had made certain observations on Guatemalan situation; I said this was quite different from making personal allusions.

Taking the initiative, I said I wished discuss protection of American citizens. I pointed out five Americans had been picked up by police today and detained for periods of from few minutes to several hours; one was still in jail. He said police had to exercise extraordinary precautions in times like these. I said I understood this but felt there should be some reason for arrests other than fact of being American. In view this situation, I continued, I was seriously considering ordering all Americans evacuated.[3] Toreillo looked startled and, as previously urged me not to take such a step which, he said, 'would do us great harm." He agreed furnish all possible protection if Americans obeyed laws and emergency regulations.

I then pointed out regulations were extremely vague: no regulation prohibited use of candles during blackouts, but there were reports of shooting at any light however dim; a little known regulation prohibited taking photos but several Americans had been hauled off to police station for photographing innocuous objects. I said I especially resented fact that two CGTG men had taken initiative in having Henry Wallace, *Time* correspondent, detained.

Toriello said that no lights at all should be shown during blackout and journalists should know better than to take photos in existing circumstances. I urged that clear and precise regulation be issued to clarify situation.

Turning to Guatemala's present situation, Toriello said he hoped US would act to stop fighting, saying government forces were completely successful on ground but could not cope with air attacks. I said I did not see how US could stop Castillo Armas without landing Marines, a solution which he quickly said would be unsatisfactory. He next inquired whether it was not against US Government policy to sell arms to private individuals. I answered that many arms had found their way to private persons and that Colonel Julian had attempted to purchase arms for Guatemalan Government in USA.

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[3] The record of the 204th meeting of the NSC, held in Washington, June 24, 1954, dated June 24, notes in part that Secretary Dulles and Mr. Allen Dulles pointed out that the "chief reason" for announcing evacuation measures would be for "psychological effect". At the meeting the NSC adopted Action No. 1163–*b* noting that the "President authorized the Departments of State and Defense, with appropriate assistance of other agencies, to arrange evacuation of U.S. civilians from Guatemala if deemed desirable." (Eisenhower Library, Eisenhower papers, Whitman file) In telegram 1361, to Guatemala City, dated June 26, 1954, not printed, Secretary Dulles authorized the Ambassador to activate evacuation immediately (214.1122/6–2654). Additional pertinent documentation on this subject is in file 214.1122.

I then asked why Guatemala had appealed to Security Council[4] rather than OAS, the proper organization for handling inter-American disputes. Toriello replied that Guatemala preferred Security Council because members of OAS were under great economic pressure from USA and pointed out proudly that Guatemala had never asked for US loans. I asked if decision to appeal to SC was not because USSR was represented there and said Russian veto of Colombian-Brazilian resolution[5] stuck out like sore thumb all over free world.

On parting, he again urged USA use its influence stop bloodshed.

After returning to Embassy I learned the one American remaining in jail had been released.

PEURIFOY

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[4] Regarding this appeal, see the editorial note, p. 1174.

[5] For text of Resolution S/3236, as introduced by Brazil and Colombia on June 20, 1954, see United Nations, *Official Records of the Security Council, Ninth Year, 675th Meeting: 20 June 1954* (New York, 1954), p. 15.

714.00/6-2354: Telegram

The Secretary of State to the Embassy in France[1]

SECRET PRIORITY WASHINGTON, June 23, 1954—7 p. m.

4775. From Secretary. See Foreign Minister[2] immediately and express our grave concern at Hoppenot's tactics in UN Security Council meeting on Guatemalan complaint[3] Sunday, June 20.[4] During course of meeting French Delegation drafted amendment to Brazilian-Colombian resolution[5] referring Guatemalan case to Organization of American States; amendment stated: "Without prejudice to such measures as the Organization of American States may take, the Council calls for the immediate termination of any action likely to cause further bloodshed and requests all Members of the United Nations to abstain, in the spirit of the Charter, from giving assistance to any such action."

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[1] Drafted by Acting Director of the Office of United Nations Political and Security Affairs David H. Popper; signed by Assistant Secretary of State for United Nations Affairs David McK. Key. Repeated for information to USUN in New York.

[2] Pierre Mendès-France, French Prime Minister and Minister of Foreign Affairs.

[3] See the editorial note, p. 1174.

[4] Reference is to the 675th meeting of the Security Council, which convened on June 20, 1954.

[5] Regarding this resolution, see footnote 5, *supra*.

US Del tried unsuccessfully dissuade French from introducing amendment, but Hoppenot insisted on tabling it, arguing it would be useful in connection with Indochina situation.[6] Amendment died when resolution as a whole was vetoed by Russians but was then, without consultation with US Del, re-introduced as separate proposal[7] by French without any reference to OAS.

US Del felt it had no recourse but to vote for resolution.

US forebodings were fully justifed. Guatemalans have made effective use of resolution to maintain that SC continues to be seized of matter and even that OAS cannot take it up. Guatemalans are maintaining resolution binds Honduras and Nicaragua to halt alleged "aid to Aggressors". Result has been to complicate task of OAS in attempting to deal with matter, and to put two factions in Guatemalan conflict on same plane regardless of fact that Guatemalan government is functioning as agent of Communist imperialism in America and as such, under resolution adopted at recent Caracas conference, represents clear threat to peace and security American continent. In short, resolution has served in effect to lend Guatemalan government an air of respectability it should not enjoy.

We stress fact French pushed their resolution through despite our objection, even though matter was of no direct interest to them and of vital concern to us. Parallel with Indochina situation not at all convincing; quite apart from other differences, there is no regional organization such as OAS available to deal with Indochina situation, and OAS is properly the agency to deal with Guatemalan complaint in first instance under Chapter 8 of UN Charter. We cannot help contrast Hoppenot's conduct most strongly with our own attitude with regard to Thai request for UN observation. We consulted with the French about this from the outset and delayed any moves in the UN for almost a year, despite the deteriorating situation on the spot and despite the strong desires of Thai and later Cambodia. When we finally did obtain British and French acquiescence to moving in the GA, we induced the Thai to water down their resolution to a point acceptable to the British and French. We did these things in the interest of harmony with and support for our allies, just as we had done on the Tunisian and Moroccan problem[8] in the last two GA sessions. We hardly consider Hoppenot's reckless and hasty action as an adequate response to our tactics in the UN.

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[6] For documentation relating to this subject, see volume XIII.

[7] For text of the proposal (UN document S/3237), adopted by unanimous vote of the Security Council, see *Official Records of the Security Council, 9th Year*, p. 38.

[8] For documentation on this subject, see volume XI, Part 1.

Please stress importance we attach to Hoppenot's abandoning such tactics and exhibiting more cooperative attitude in future. We hope he will be promptly instructed not to take any further action with regard to Guatemalan matter without prior consultation with Lodge.

Please convey to Foreign Minister how deeply concerned I am personally about this matter. I have asked Ambassador Bonnet to call tomorrow afternoon and will take it up with him in detail.[9]

DULLES

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[9] The memorandum of conversation between Secretary Dulles, Ambassador Bonnet, and Minister of the French Embassy Gontran Begougne de Juniac, dated June 24, 1954, by Mr. Key, is not printed (330/6–2454).

On June 25, 1954, Secretary Dulles discussed the Guatemalan complaint before the Security Council with British Foreign Secretary Eden and British Ambassador Makins at the Department of State; a memorandum of their conversation, by Mr. Key, not printed, is in file 714.00/6–2554.

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Telephone Conversation, by the Secretary of State

[WASHINGTON,] June 24, 1954.

Secretary Dulles' telephone call to Ambassador Lodge (in New York), 9:55 a.m. today:

Dulles: The President said he thinks you should let the British and French know that if they take independent line backing Guatemalan move in this matter, it would mean we would feel entirely free without regard to their position in relation to any such matters as any of their colonial problems in Egypt, Cyprus, etc.

If they feel they can take independent line, the counterpart will be that they must consider that we will be free equally to be independent when any of the matters such as North Africa, Middle East, etc., come up before the UN.

Lodge: I will do that.

Dulles: He (the President) wanted to avoid making it in the form of a threat. But make it a clear understanding that if they don't take into account our needs and considerations in this matter, it will be a two-way street, and they must accept it.

Lodge: Yes, I see. It's a terrible thing. I will get this to them. Will determine just when and how to do it.

Dulles: Use your own judgment as to time.

Lodge: If there is open split between British and French, Russians will be very much pleased. But we cannot put off meeting much longer.

Dulles: Guatemala itself, as I understand it, is violating the terms of the Charter—Article 53(2), I think. The whole status of regional organizations is at stake in this particular matter. That was the thing we fought for (Vandenberg and I) at San Francisco. The whole concept is being destroyed.

Lodge: No question about it. At the same time, I will have to have a meeting, probably tomorrow. If the British and French persist, we will have an open split. I will try to keep agenda from being adopted. Don't have to invite Guatemala to the table. I put it to the Frenchman this morning, and he didn't like it at all. Thank you very much—I will be guided accordingly.

714.00/6–2454:Telegram

The United States Representative at the United Nations (Lodge) to the Department of State

TOP SECRET NEW YORK, June 24, 1954—6 p. m.

876. For the Secretary. Re Guatemala. I told Dixon and Hoppenot this morning that we had worked hard all yesterday to get OAS to take some action in line their position[1] yesterday. OAS did take action last night[2] which met their position. Dixon had informed me this morning his government's policy had changed and they now insisted on UN observation. I had immediately reported[3] this to Washington. I now had an important statement to make to them and I had asked them to come to my office so that I could do so in person. I said that this statement was not in any sense of the word a threat because of course they represented strong independent governments that would do whatever they wanted but that I was instructed by the President to say to them that if Great Britain and France felt that they must take an independent line backing the present government of Guatemala, we would feel free to take an equally independent line concerning such matters as Egypt and North Africa in which we had hitherto tried to exercise the greatest forbearance so as not to embarrass Great Britain and France.

My announcement was received with great solemnity.

LODGE

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[1] In telegram 867, from New York, dated June 23, 1954, Ambassador Lodge stated in part the following: "Hoppenot and Dixon called on me in private and told me that if the Soviet Union moved to send a peace observation commission to the region of Guatemala they would have to vote in favor of it unless the OAS had taken action to send observation of its own." (714.00/6–2354)

[2] On June 23, 1954, the Inter-American Peace Committee decided to authorize the formation of a subcommittee of information, composed of members of the IAPC, which might visit Guatemala, Nicaragua, and Honduras, and with consent of those governments, conduct an investigation of the complaints they had laid before the committee.

[3] Reference is to telegram 870, from New York, dated June 24, 1954, not printed (714.00/6–2454).

714.001/6–2554

Notes of a Meeting of the Guatemalan Group, Held at the Department of State, June 25, 1954[1]

SECRET

Present: Holland, Burrows, Pearson, Wieland, . . . Warren, Sparks, Jamison, Herron, Sanders, Atwood, Col. Clark, Woodward, Pawley

1. *Calling the OAS Meeting*

Holland reported that the Secretary had not yet approved his recommendation that the OAS meeting be called. The Secretary believed that on the assumption that Armas failed, Arbenz and Toriello would become heroes and we may not succeed in obtaining our resolution. Such a major diplomatic defeat would be a great blow to the US prestige. In analyzing the alternatives with the group, Holland believed that if we called off the meeting the results would be catastrophic; if we postponed the meeting, each day of postponement would make our position worse. In view of these alternatives he was planning to see the Secretary again to recommend that though there was a great risk in the calling of the meeting, we should do it.

During the meeting Holland and Pawley left to talk with General Smith and later reported that General Smith favored the calling of the meeting.

2. *Place of Meeting*

Holland reported that Kemper called[2] him this morning from Rio to say that Rao agreed to having the meeting at Rio.[3] Later in the meeting while Holland was absent the question arose as to whether we would be able to inform any of the participating countries of this change, especially Venezuela and Argentina, but it was decided to check with Holland.

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[1] Drafted by Mr. Pearson.

[2] A memorandum of the referenced telephone conversation, dated June 25, 1954, is not printed (714.00/6–2554).

[3] In the Department's telegram 182, to Montevideo, dated June 25, 1954, Secretary Dulles stated that because of the Uruguayan Government's reluctance to have the OAS meeting in Montevideo "Department has agreed with Brazilian Government to request that [proposed OAS] meeting be held in Rio. Because growing concern regarding Communist plots [and] demonstrations in Montevideo Department feels most governments will be pleased at change." (363/6–2554)

3. *Security Council Action*

Holland reported that the British have agreed to abstain with respect to the Guatemalan request for a meeting; thus it is apparent that there will be no action on the Guatemalan request.[4] The group believed that in the absence of Security Council action the Guatemalans might accept the Peace Committee offer.[5]

4. *Preparations for OAS Meeting on the Assumption that it will be called*

Holland left the meeting and asked that the group go over the preparations for the meeting. Dreier outlined the following steps:

(*a*) He was planning to check with all of the members of the COAS to be sure they have their instructions so that there need be only *one* meeting of the Council. Depending on when we receive the go ahead decision, the Council meeting time would be set, possibly as early as Saturday afternoon.

(*b*) He reported that the following countries had agreed to cosponsor the request for the Council meeting—Brazil, Costa Rica, Cuba, Dominican Republic, Salvador, Haiti, Honduras, Nicaragua, Panama, Peru and the United States. These eleven would also constitute the majority needed to call the meeting of Foreign Ministers.

(*c*) The resolution for action of the Council[6] was in draft form. It would be very brief and the group agreed that it should include a clause to the effect that though Guatemala had not deposited the ratification of the Rio Treaty, she should be invited to the meeting.

(*d*) Dreier did not believe the meeting would be very long and would not involve many speeches. He was working on his own speech.

(*e*) A complete draft[7] of the Secretary's speech for the OAS meeting will be ready on Tuesday, June 29 according to McJennett.

(*f*) Jamison, Herron and Wieland were to develop a press release[8] for issuance by the Secretary at the time the OAS Council calls the meeting of Foreign Ministers.

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[4] On June 25, 1954, the Security Council rejected adoption of the provisional agenda containing Guatemala's complaint by a vote of 5 in favor, 4 against, and 2 abstentions; 7 affirmative votes were required for adoption. For additional documentation, see *Official Records of the Security Council, 9th year, 676th Meeting* (June 25, 1954).

[5] In Guatemala Embassy note no. 867, dated June 26, 1954, not printed, Guatemalan Chargé Chocano informed the IAPC of Guatemala's desire to cooperate and to accept a visit by the IAPC's subcommittee of information; a translation of the note is attached to 363.1/6–2954.

[6] For text of the referenced resolution, as adopted by the OAS at a special meeting on June 28, 1954, see *Annals of the Organization of American States, 1954*, pp. 159–160.

[7] Not printed.

[8] Apparent reference to the Department's press release 351, dated June 26, 1954, printed in the Department of State *Bulletin*, July 5, 1954, pp. 31–32.

(*g*) A Spanish text[9] of the draft resolution has been prepared. Woodward suggested that this draft be distributed to the Latin Americans so that there would not be so many texts floating around.

5. *Publicity*

There was considerable discussion of the developments in connection with a television program this Sunday, "The American Forum of the Air" by Granik. It was decided that Herron should call Granik's office and suggest that four newsmen appear on the program to query Chocano on the Guatemalan situation.

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[9] Not printed.

Editorial Note

On June 26, 1954, representatives of ten of the member states on the Council of the Organization of American States (Brazil, Costa Rica, Cuba, Dominican Republic, Haiti, Honduras, Nicaragua, Panama, Peru, and the United States) requested a meeting of Consultation of the American Foreign Ministers under Articles 6 and 11 of the Inter-American Treaty of Reciprocal Assistance; for text of the letter of request, see the Department of State *Bulletin*, July 5, 1954, pages 131–132, or *Annals of the Organization of American States, 1954*, page 159. At a special meeting on June 28, 1954, the Council adopted a resolution authorizing a meeting of the Ministers of Foreign Affairs at Rio de Janeiro on July 7, 1954; for text, see *ibid.*, pages 159–160. At a third special meeting, on July 2, 1954, the Council adopted a resolution postponing the proposed meeting *sine die*; for text of the resolution, see *ibid.*, page 161.

714.00/6–2754: Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET NIACT GUATEMALA CITY, June 27, 1954—2 p. m.

[Received June 27—8 p. m.]

1121. Situation appears breaking rapidly. Toriello called me to Foreign Office this morning where he said he knew I could stop fighting in 15 minutes if I wished. He asked if I would do so if military Junta took over the government. He asked specifically whether Arbenz would have to leave office and whether Toriello's own resignation would do any good. He said he was willing to do anything in power to prevent bloodshed and further bombing by planes which he said had damaged vessel *Springsfjord* at San Jose this morning. He said that he personally and his brother Jorge had always been very anti-Communist and that as far as he was concerned the Junta could take all the Communists in Guatemala and send them to Moscow. Toriello stated that if the government were turned over to a Junta, Castillo Armas must not come to power as this would cause great bloodshed in the country. He stated that I could cause end of fighting through pressure, if not on Castillo Armas, then on Honduras.

I replied that I had no control over situation but would do anything I could to bring about peace. Re Arbenz remaining in office, I said I could not speak for insurgent forces but would think that the situation would demand a clean sweep.

Toriello asked whether I would be available to see him again this afternoon or tonight. I replied that I would be willing to see him at any time.

Since returning to the office from Foreign Office, I received telephone call from Colonel Diaz, chief of armed forces, who invited me to meet with him and other officers in his home at earliest possible moment. I am now leaving for this meeting and will telegraph results upon my return.

In view of developments I am taking action on evacuation at this time.

PEURIFOY

714.00/6–2754: Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET NIACT GUATEMALA CITY, June 27, 1954—11 p. m.
[Received June 28—11:06 a. m.]

1124. Pass Defense. A few minutes after I returned to Embassy after interviewing Foreign Minister Toriello (Embtel 1121, June 27),[1] I received personal telephone call from Colonel Carlos Enrique Diaz, Chief of Guatemala Armed Forces, who said he was with several army officers and asked if I could meet him at his residence at once. I went there about half hour later accompanied by Colonels McCormick[2] and Martin and Mr. Krieg.

After my arrival Colonel Diaz entered room accompanied by Colonel Sanchez, Minister of Defense; Colonel Parrinello,[3] Chief of Staff; Colonel Giron, Chief of Air Force; and Colonel Sarti,[4] President of Superior Defense Council. Diaz began by describing horrible situation created by aerial bombardment of Chiquimula and Zacapa. He said towns were virtually wiped out; that in Zapaca dead lay unburied in streets and buzzards were having feast on them; civil population had fled. Army could cope with Castillo Armas' ground forces, but not his aviation. He said Castillo could not have obtained these arms without US acquiescense. I replied sharply that if he had brought me to his house to make accusations against my government, I would leave immediately. He hastily said he was not accusing US. He therefore asked what US would wish in return if it used its good offices to put end to fighting. Constantly emphasizing I could speak only as individual and not for US Government, I said there was only one important problem between our governments: That of communism. Colonel Diaz said he knew that and was prepared guarantee in name of army that Communist Party would be outlawed and its leaders exiled.

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[1] *Supra.*

[2] Aloysius E. McCormick, Army Attaché, U.S. Embassy, Guatemala City.

[3] Enrique Parrinello.

[4] Lt. Col. Carlos Sarti.

I said this was fine, but that government had long known this and neither government nor army had ever acted; how could I be sure army would be able to carry out its decision? After some hesitation Diaz said this was crucial question. Solution desired by all army officers was that he should assume presidency. He emphasized that this had been difficult decision and would be difficult execute; he said Communists could be expected try uprising to oppose coup, and that he would need in Guatemala City forces which were now at battle front. Thus it would be necessary for US to use influence stop fighting and especially to have Honduras and Nicaragua stop allowing Castillo use airfields. I asked whether he had attempted any direct arrangement with Castillo Armas. He replied in stongest terms (and was strongly seconded by others) that direct negotiations with Castillo were out of question; they would rather die than talk with him. Diaz said Castillo Armas could never govern Guatemala after massacres his air forces caused; he might have had some supporters in army before, but no longer.

I stressed again that I could neither speak for Castillo nor commit my government, but that if Diaz assumed power and ousted Communists, I would strongly recommend that US attempt to bring about cease-fire until arrangement could be made. Once again Diaz and colleagues insisted that truce, at least cessation of airraids, would be essential before they could act against Arbenz. They said there were only 500 regular troops in city, plus 2,500 reservists with two years previous service who had just been called up. Latter were armed and equipped. Unfortunately, there were also about 2,000 peasants who had just been brought in for training. They would be disarmed. I simply repeated that when I knew Diaz was in control I would recommend cease-fire

After further discussion and several private conferences with colleagues, Diaz said they had decided act at once, relying on my promise to urge a cease-fire. He then said, "Now comes the tough problem. Who is going to bell the cat? Who will talk to Jacobo?" With but moment's hesitation, he made decision: "Col. Sanchez will visit all garrisons and announce I have assumed presidency. Colonel Giron will inform air force. I will go to Palace with Parrinello and Sarti and we will tell Jacobo." After some other talk, Diaz said, "Arbenz may answer two ways. He will either say, 'yes,' or he will say, 'this is insubordination,' and call the guard. In latter case, we will not emerge from Palace. If we are not out in reasonable period, Sanchez will bring up artillery."

Throughout discussion, I emphasized necessity of acting quickly to round up leading Communists before they they could mobilize forces. All agreed this was essential and Sanchez was designated to give necessary orders. I pointed out that Major Rosenberg,[5] chief of detectives, undoubtedly had report of Diaz telephone call to Embassy since all our telephones were tapped and might well be making his own plans. Strangely enough, this idea apparently had not occurred to Diaz. He said he would act as soon as possible to replace Rosenberg and Cruz Wer,[6] chief of police.

I then told Diaz I felt very deeply necessity of implanting democracy as far as local conditions permitted and that all sectors of population, including those who have followed Castillo Armas anti-Communist movement, be allowed participate in political life of country. Diaz and associates gave most categorical assurances that they would issue general amnesty, release all political prisoners and allow persons in asylum in diplomatic missions to come out. They said Castillo Armas could return if he wished but added feeling against him was high because of bombings and they could not guarantee his safety.

At one point Diaz asked whether any members of present Cabinet were unacceptable to US. I said I could not attempt to dictate his Cabinet and that if he appointed reasonable men I was sure all our secondary problems could be worked out, such as difficulties of American Companies. I emphasized strongly I represented US Government and people, not individual companies.

At conclusion, it was agreed Diaz would telephone me after seeing Arbenz and inform me of outcome.[7]

PEURIFOY

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[5] Jaime Rosenberg Rivera, Chief of the Judicial Guard in Guatemala.

[6] Rogelio Cruz Wer, Director General of the Civil Guard in Guatemala.

[7] In telegram 1123, from Guatemala City, dated June 27, 1954, and sent at 7 p. m., Ambassador Peurifoy, apparently referring to the subsequent meeting between Colonel Diaz and President Arbenz, stated in part the following: Colonel Diaz "told me that he had just talked with Arbenz who he described as very tired, said he could not continue without army support; that he wished to leave office gracefully and that he would go on national radio hookup at 9 p. m. tonight to announce that he was turning over presidency to Diaz and requesting all people support him." (714.00/6–2754) In telegram 1125, from Guatemala City, dated June 28, and sent at 1 a. m., Ambassador Peurifoy informed the Secretary of State that President Arbenz had announced his resignation at 9:10 p. m. in a "bitterly anti-US speech" over a nation-wide radio broadcast (714.00/6–2854).

714.00/6–2854:Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET PRIORITY GUATEMALA CITY, June 28, 1954—noon.
[Received June 29—11:15 p. m.]

1131. Between 4 and 6 a. m. today, I met with Colonel Diaz, Colonel Sanchez, Colonel Parrinello, and Colonel Monzon.[1] Diaz announced yesterday he had arrested Fortuny, Gutierrez and Pellecer. He said he had replaced Colonel Cruz Wer, head of *Guardia Civil*, with Colonel Jose Luis Morales Melgar, and Major Jaime Rosenberg, head of *Guardia Judicial*, with Lt. Colonel J. Antonio G. Saravia.

I told Colonel Diaz that I was amazed and astounded at fact that he had permitted Arbenz in delivering his valedictory to charge that US was responsible for supplying aviators to forces attacking Guatemala, and for his general line to say we had used "pretext of Communism" to unleash aggression on this country. I told him that, this being his first act, I did not see how we could work together toward bringing about a peace. I suggested that perhaps he might wish to designate Colonel Monzon, well-known for his anti-Communist feelings, as President. He said that he agreed with me in principle and would give me his answer today at noon when I am to meet with him again.[2]

PEURIFOY

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[1] Elfego Hernán Monzón Aguirre, Guatemalan Minister Without Portfolio, 1950–1954.

[2] Department of State files contain no record of a subsequent meeting between Ambassador Peurifoy and Colonel Diaz to discuss the possible presidency of Colonel Monzón.

714.00/6–2854:Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET NIACT GUATEMALA CITY, June 28, 1954—5 p. m.
[Received June 29—4:08 a. m.]

1136. As I left Embassy this morning to meet with Colonels Diaz, Sanchez and Monzón, I received word they had just announced they had formed military junta contrary to agreement which we had reached last night Embtel 1130, June 28.[1]

When we met in office of Chief of Armed Forces I expressed surprise at this development and Colonel Diaz asked Colonel Monzon to explain. Monzon said he did not feel himself strong enough assume presidency alone; that resignation or dismissal of Chief of Armed Forces would cause dissension within army at time when unity was essential maintain internal order; that he had therefore requested Colonel Diaz set up junta and retain position of Chief of Armed Forces.

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[1] Telegram 1130 from Guatemala City, not printed (714.00/6–2854).

Colonel Diaz then emphasized his willingness to turn over presidency to Monzon but said he had yielded to latter's insistence in formation of junta. Monzon would be in charge of Ministry of Interior, thus having police under his control, and he would be in full charge of internal affairs. Diaz and Sanchez promised take no action without his approval.

Colonel Diaz went on to review Monzon's record as anti-Communist. He said that as member of (Arevalos) Cabinet, Colonel Monzon had not only spoken out against communism but had acted against it. He guaranteed support of Army to Colonel Monzon in carrying out vigorous program clean out Communists.

Colonel Diaz, who took lead in most of discussions, said junta's immediate problem was restore internal peace. He therefore renewed his request I use my influence cause Castillo Armas lay down his arms. He argued that Castillo had been fighting under banner of anti-communism; new junta was thoroughly anti-Communist; if Castillo Armas were sincere anti-Communist he would stop fighting at once. They would offer him and followers every guarantee. He could come back to Guatemala and contest presidential elections if he wished. In response to my question, Diaz said it was junta's intention proclaim general amnesty, release all political prisoners and allow those who had taken asylum in Embassies come out. Sanchez interrupted at this point to say he wished be entirely frank: At this exact moment it was not possible free all prisoners but that as soon as Castillo Armas matter was settled this would be done. Meanwhile, presence of Colonel Monzon in Ministry of Government was a guarantee of their safety. Monzon added, "They are all my friends." I pointed out it was necessary be realistic in this situation: Castillo Armas was in Guatemala at head of forces which had inflicted severe punishment on government troops. Hence most practical and effective way obtain peace was deal with Castillo Armas.

Talk then centered on this subject for considerable period developing no new points of view. Junta tried every argument at their command avoid a direct meeting with Castillo, although at one point they seemed be wavering on possibility of meeting with representatives of Castillo. I explained thought [*throughout*?], however, that it was better deal with head man so that hard and fast agreements could be made.

Colonel Diaz then brought up question of recognition. I pointed out that I and my colleagues did not question good faith of junta members but that we anticipated Washington would wish consider situation for a reasonable period to see what action they would take. It was further pointed out that one of criteria for recognition is that new government be in control of territory of the country; such was not case here, where Castillo Armas controlled a portion of territory.

After considerable fruitless discussion, it was agreed that junta would consider matter alone and give me a concrete answer at 5 this afternoon.

PEURIFOY

714.00/6-2854: Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET NIACT GUATEMALA CITY, June 28, 1954—8 p. m.
[Received June 29—5:15 a. m.]

1137. Pass Defense. In accordance with prior arrangements (Embassy's telegram 1136, June 28),[1] I met 5 p. m. with Colonels Diaz, Sanchez and Monzon to receive their answer as to whether they would be prepared to initiate conversations with Colonel Carlos Castillo Armas, leader of rebel forces.

Diaz first inquired whether if they agreed to conversations I thought a cease-fire could be arranged while negotiations were in progress. I replied that while I could not speak for Castillo Armas, I would be pleased to suggest that a cease-fire be worked out. Diaz then stated that he and his colleagues felt it desirable to have a neutral person present during conversations so that what was agreed upon could be witnessed. He said he had already spoken to the Papal Nuncio who had expressed his willingness to collaborate. I said I would convey this message with my favorable recommendation.

In those circumstances, said Colonel Diaz, Junta would be prepared open talks with Castillo Armas. I promised to convey this message immediately to Department and request that it be speedily conveyed, if possible, to Castillo Armas. Junta thought talks should be held in Nunciature in Guatemala City. It was suggested that Colonel Martin talk with Chief of Staff Parrinello about the landing pattern to be followed by plane bearing Castillo Armas should talks be agreed upon, and that Colonel McCormick also confer with Parrinello to work out details of cease-fire. In this connection, Colonel Diaz estimated that it would take twelve hours from the time he received messages confirming possible agreement until word regarding cease-fire could be circulated to troops in field. Junta members made several efforts obtain advance agreement to an end to air attacks, but I insisted cease-fire must be effective on all branches at once.

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[1] *Supra.*

Papal Nuncio[2] informed Embassy today over 90 percent of people favored Castillo Armas. I intend to see Nuncio tomorrow and confirm his role in conversations as well as have generally frank talk concerning situation.

I request Department convey through appropriate channels to Castillo Armas the offer of Junta to confer with him. In interest of stopping bloodshed, I strongly recommend he be urged to accept.

PEURIFOY

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[2] Monseñor Genaro Verolino.

714.00/6–2954

Memorandum of Telephone Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

TOP SECRET [WASHINGTON,] June 29, 1954.

Participants: Ambassador Peurifoy, Guatemala
Mr. Holland

Ambassador Peurifoy called from Guatemala to say that the bombing continued, and wanted to know if there wasn't some way to get word to Armas to stop it. The Ambassador stated that the new people were being greatly embarrassed and were in a "flap". He didn't know what was going to happen.

Mr. Holland said this development was what he needed. He asked the Ambassador to get the new people to authorize us to call the Council of American States together and advise them that the new Junta has requested the United States and El Salvador to lend their good offices to accomplish two ends:

1. First, an immediate cessation of hostilities.
2. A meeting of the heads of the two groups in El Salvador to try to work out a settlement.

Mr. Holland said that if they will authorize us to do that, then we can openly send people to this fellow to tell him they have got to stop this. Ambassador Peurifoy stated at this point that "they will authorize that".

Mr. Holland said that he was going to call the OAS and say that through the Ambassador the Junta had called upon El Salvador and the United States to lend their good offices to bring about an immediate cessation of hostilities and that we are proposing to send a mission from Tegucigalpa and urge that this be done. The Ambassador agreed.

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[1] The conversation took place at 3 p. m.

Mr. Holland asked the Ambassador if he had sent out the cables[2] he had requested a while ago. The Ambassador said yes, that they had agreed to send three cables. Mr. Peurifoy urged Mr. Holland to act with great rapidity, and the latter promised he would.

Mr. Holland asked that they immediately cable[3] the Department, advising that they are requesting that we and El Salvador use their good offices to try to achieve this and the stoppage of hostilities immediately. Ambassador Peruifoy said he would do this.

Mr. Holland said he had talked with McDermott.[4] McDermott had spoken with President Osorio,[5] and the President said he would be glad to have the meeting in El Salvador.

Mr. Holland said that he would call the Council immediately stating that this had come from the Junta through Peurifoy and is being confirmed in writing, and that we will move also right away.[6]

Mr. Holland said, in response to a question of the Ambassador, that he had spoken with Willauer at Tegucigalpa about this matter.

Mr. Holland concluded with the request to the Ambassador that he get out the three cables (which he enumerated).

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[2] Not identified.

[3] Telegram 1148, from Guatemala City, dated June 29, 1954, not printed, contains the translated text of a letter from the Guatemalan military junta received at the Embassy on June 29, requesting the United States to use its good offices to bring about a meeting between Colonel Monzón and Castillo Armas aimed at ending hostilities in Guatemala. (714.00/6–2954).

[4] Michael J. McDermott, U.S. Ambassador to El Salvador.

[5] Lt. Col. Oscar Osorio, President of El Salvador.

[6] In a memorandum of telephone conversations which took place at approximately 3:30 p. m. on June 29, 1954, dated June 29, Assistant Secretary Holland stated that he had called Ambassadors McDermott, Willauer, and Thomas E. Whelan, Ambassador to Nicaragua, to request that they try to establish contact with Castillo Armas to urge him to declare an immediate suspension of hostilities, and that he had also called Salvadoran Ambassador Héctor David Castro, President of the Council of the Organization of American States (COAS), to ask him to convene an extraordinary meeting of the Council so that Mr. Holland could appear before it and report the Guatemalan junta's overture (714.00/6–2954). A meeting of the Council was called for 5:30 p. m. on June 29.

714.00/6–2954: Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET PRIORITY GUATEMALA CITY, June 29, 1954—7 p. m.
[Received June 30—5:10 a. m.]

1146. Following Assistant Secretary Holland's telephone call last night suggesting possibility of holding negotiations in San Salvador between Guatemalan Government Junta and Castillo Armas, I immediately tried to get in touch with Colonel Diaz but was unable to until about 2 a.m., today when I met him at office of Chief of Armed Forces.

Diaz immediately agreed to meeting in Salvador but desired consult his colleagues. Sanchez finally arrived and consented but Monzon could not be located. During interval, I visited Colonel Funes,[1] Salvadoran Ambassador, and secured his agreement.

Returning to Diaz' office at 4 a.m., I found Monzon had not yet appeared. Just as I was about to leave, Diaz received telephone call from Palace and he and Sanchez left to confer with several officers. While they were out, Colonel Martin, our Air Attaché, arrived and informed me plot was afoot to assassinate Diaz and Sanchez and urged me to leave building at once. I spent a difficult moment wondering if I would be caught in crossfire, but finally decided remain.

Shortly thereafter Diaz returned and wearily informed me that things had changed: He and Sanchez had decided resign from Junta since it appeared they were unacceptable to Castillo Armas; they would however, collaborate with new government.

It was then arranged for Colonel Monzon to meet me in Diaz' office and he appeared shortly with new Junta members, Jose Luis Cruz[2] and Mauricio Dubois.[3] He was drained by fatigue and seemed at first unable comprehend points of Holland's plan, but after Diaz and Sanchez had helped explain it to him, he agreed eagerly and asked that meeting be held on Wednesday, which was as soon as he could get away. He courteously detailed officer to accompany me to wireless telephone office, where I called Holland,[4] and then to my home.

PEURIFOY

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[1] J. Alberto Funes, Salvadoran Ambassador to Guatemala.

[2] Lt. Col. José Luis Cruz Salazar.

[3] Juan Mauricio Dubois.

[4] No memorandum of this telephone conversation was found in Department of State files.

Editorial Note

On the morning of June 30, 1954, the President's Press Secretary, James C. Hagerty, had a telephone conversation with Secretary Dulles concerning the status of several foreign policy issues in preparation for the President's press conference at 10:30 a.m. Hagerty recorded the conversations with respect to Guatemala as follows:

"Dulles said that the President could take great satisfaction from the trend of events in Guatemala where Red agents and fellow travellers were fleeing the country. He suggested that the President say that the Guatemalans were resuming to take charge of their own affairs, that the United States welcomed this and that the Secretary of State was going to make a more complete statement on this subject on nationwide radio that night." (Eisenhower Library, Hagerty papers, Diary Series)

The record of the President's press conference is printed in *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954*, pages 602–614.

The text of Secretary Dulles' address to the Nation over radio and television concerning Communism in Guatemala is printed in the Department of State *Bulletin*, July 12, 1954, pages 43–45.

363.1/6–3054:Telegram

The Secretary of State to the Embassy in Guatemala[1]

SECRET PRIORITY WASHINGTON, June 30, 1954—8:22 p. m.

1382. Department feels Peace Committee should fulfill its schedule to spend three days each in Guatemala City, Tegucigalpa, and Managua, thus fulfilling need for demonstration to UN Security Council of positive OAS action and strengthening prestige of OAS in hemisphere.

If representatives Junta unwilling act in absence Monzon Peurifoy should recommend they cable Peace Committee requesting it await further communication upon return Guatemala of Monzon at which time Junta should advise Committee, COAS and UNSC that Guatemala no longer has controversy with Honduras and Nicaragua but requests that Committee nevertheless visit Guatemala as planned. Committee's visit Guatemala affords splendid opportunity full demonstration Communist penetration Arbenz government, atrocities and subversive activities.

Willauer and Whelan should recommend their governments immediately cable Peace Committee through Ministry of Foreign Relations in Mexico stating they no longer have controversy with Guatemala but renewing invitation Committee fulfill its program come to

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[1] Drafted and signed by Assistant Secretary Holland. Sent also to the Embassies in Tegucigalpa, Managua, San Salvador, and USUN in New York; repeated to the Embassy in Mexico for the information of Ambassador Daniels.

Honduras from Guatemala for three days thence to Nicaragua for same period.

Every effort should be made cause Committee return with report it has achieved harmonious relations between three countries and condemning international Communist movement for its attempts destroy inter-American system through subversive activities disrupting harmonious relations between American states.[2]

McDermott should promptly keep other addressees this cable fully advised progress conferences[3] San Salvador.

DULLES

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[2] On June 30, 1954, the Guatemalan Government requested the IAPC to reconsider its decision to send an investigating committee to Guatemala, and on July 2 Guatemala reconfirmed its request; translations of the relevant messages exchanged between the IAPC and Guatemala are quoted in full in the Department's circular instruction CA–134, to all diplomatic posts in the American Republics and to USUN in New York, dated July 6, 1954, not printed (363/7–654). Also on July 2, the Governments of Guatemala, Honduras, and Nicaragua, in view of the mediation which in the meantime had resulted in the termination of the armed conflict in Guatemala, advised the IAPC that the reason for the investigation had ceased to exist. The final report of the IAPC on the controversy between the three countries, dated July 8, 1954, is printed in the *Annals of the Organization of American States, 1954*, pp. 239–245.

[3] Reference is to the talks between Castillo Armas and Colonel Monzón held in San Salvador, June 30–July 2, 1954.

Editorial Note

On the night of June 30, 1954, Lieutenant Colonel Castillo Armas and Colonel Monzón initiated talks at San Salvador, aimed at establishing a permanent cease-fire and reaching a political settlement. President Osorio acted as intermediary. Ambassador McDermott did not participate directly in the talks; his role in arranging them is described in detail in despatch 3, from San Salvador, dated July 5, 1954, not printed (714.00/7–554). The notes of the Secretary's staff meeting, which took place at the Department of State at 9:15 a. m. on July 1 (dated July 1 and designated SM N–243, not printed) record Assistant Secretary Holland as stating that a deadlock existed between the two Guatemalan leaders, because Castillo Armas wanted to move his troops immediately into Guatemala City and Monzón insisted on retaining control of the Guatemalan army, and that Ambassador Peurifoy might have to go to San Salvador to take part in the talks (Secretary's Staff Meetings, lot 63 D 75).

714.00/7–154:Telegram

The Ambassador in El Salvador (McDermott) to the Department of State[1]

CONFIDENTIAL NIACT SAN SALVADOR, July 1, 1954—8 a. m.
[Received July 1—6:53 p. m.]

2. Discussions behind closed doors between Castillo Armas, Monzon, President Osorio and Peralta Salazar,[2] President Legislative Assembly continued from 8:10 p. m. until approximately 3:45 a. m.

President Osorio subsequently explained he had taken for basis discussion existence two *de facto* governments in Guatemala. Three basic proposals were made by Salvador, one by Monzon and one by Castillo Armas. Other proposals of lesser importance were discussed but left without final decision.

Salvadoran proposal was that a plebiscite be held within shortest possible period thus not allowing Communists now disordered or fleeing from country to take advantage of situation. Date of plebiscite was to be fixed by Castillo Armas. Plebiscite was to be supervised by mixed commissions composed equal number members both parties. Guatemalan people would be asked vote for Castillo Armas or junta. If vote favorable Castillo Armas, he would be given all powers and rights of chief of state and would not be obligated to convoke elections until country had returned to normal and on date he alone would determine. If vote favorable to junta it would convoke elections for a Constituent Assembly or to elect a President. In latter case Monzon would not be a candidate.

Second proposal was advanced by Monzon. It provided for increasing junta to five members with assurances that at a later prudent date to be selected by Castillo Armas latter could appoint additional member replacing one member who would retire. Monzon stated he would leave with President Osorio written resignation to take place when Castillo Armas determined [garbled group] Castillo Armas would eventually have majority.

Third proposal presented by Castillo Armas provided for unification of two governments on basis of a lengthy list of conditions and provided this arrangement accepted by Army in which case Castillo Armas would be named Chief of the Armed Forces and political chief of the republic. The unification would be based on joint declaration that the two governments seek the same basic purposes.

Salvadoran proposal for a plebiscite was unconditionally accepted without delay by Monzon. After discussion it was accepted in principle by Castillo Armas. Subsequently, however, Juan Cordova Cerna, adviser to Armas, was called in and expressed grave doubts regarding feasibility or desirability hold plebiscite at this time. Maintained Communists had only temporarily gone to ground and their influence in plebiscite could jeopardize all Castillo Armas accomplishments.

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[1] Repeated niact to Guatemala City. This telegram was transmitted in two sections.

[2] José María Peralta Salazar.

Second proposal which was made by Monzon was not accepted by Castillo Armas as apparently not giving him sufficient immediate leadership.

The third proposal presented by Castillo Armas was not accepted by Monzon.

President said he regarded Castillo Armas as definitely the more recalcitrant of the two. He said Monzon had accepted the Salvadoran proposal and had advanced one of his own. Castillo Armas had only conditionally accepted Salvadoran proposal and had not followed through in subsequent discussions, consequently, Castillo Armas had been agreeable to only one which was his own.

President said no further conversations would be held in San Salvador as both protagonists are returning to the respective headquarters. Existing truce or cease-fire had been extended to expire 9:00 a. m. July 2, after which hour Castillo Armas could presumably take whatever military action he desired. Osorio said he was exceedingly sorry personal ambitions had prevented solution of problem of gravest importance to Guatemala and Central America. He said, however, there was nothing further he could do and matter of any other possible solution could now only rest with United States as one of the two mediators. The President was informed we are not of view mediation was involved but rather an extension of good offices to assist both parties to reach a solution through personal discussions. President conceded that our view was correct interpretation of previous conversations.

Monzon returning Guatemala air attaché plane departing here 8:00 a. m. and Castillo Armas by his own plane to Chiquimula at approximately same hour.

General feeling intense disappointment among numerous diplomats and others including all high officers Salvadoran army who were present at Presidential Palace throughout night.

Entire foregoing explanation conveyed to me by President in strictest confidence as details at close of meeting known only to four participants and in part to one or two advisors.

President has just telephoned asking me to see him at 8:30 a. m. Will report immediately thereafter.

McDermott

714.00/7–754

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET GUATEMALA CITY, July 7, 1954.

No. 5

Subject: Memorandum of Negotiations Leading to Signing of Pact of San Salvador, July 2, 1954[1]

In accordance with telephonic instructions from Assistant Secretary Holland, I left Guatemala for El Salvador with Col. Batten,[2] Chief of the U.S. Air Force Mission in Guatemala, and Harold E. Urist, Public Affairs Officer, in the Air Mission plane at 11:30 a.m. July 1. We took along a number of U.S. news correspondents and representatives of each of the five Guatemalan independent newspapers. Upon our arrival in San Salvador at 12:15 p.m. I was met by the Chief of Protocol, Ambassador Antonio Alvarez Vidaurre, representing the Salvadoran Government.

Ambassador Alvarez drove me to the Palace, where Ambassador Michael McDermott and Counselor of Embassy Andrew E. Donovan were waiting. I was presented at 1:30 p. m. to President Osorio. Also present during the interview were Sr. Peralta, President of the Salvadoran Assembly, who was to be President Osorio's personal representative during the negotiations, Ambassador McDermott, Mr. Donovan, and Mr. Urist who served as interpreter. We had barely exchanged greetings when I received a telephone call[3] in the President's private office from Secretary of State Dulles, who emphasized the importance of bringing the negotiations to a satisfactory conclusion and that, if it were necessary, I was authorized to "crack some heads together".

President Osorio told me that the negotiations between Colonels Elfego Monzón and Carlos Castillo Armas had been carried on until 4 a.m. that morning (they had begun the evening of June 30), but that the two men were as far apart as when they met. He said Col. Monzón would not give an inch and that in his opinion Col. Castillo Armas should be the President of the Military Junta which was ruling Guatemala, and that if I could bring them together, I was a better man than he. I mentioned to him my conversation with Secretary Dulles and emphasized the deep concern of my Government with regard to the situation in Guatemala and how important it was that the two sides be brought to a satisfactory understanding and agreement. I said I was going to do everything in my power to resolve the basic differences and take the two colonels back to Guatemala with me and the other diplomatic advisers who had lent their good offices. I then told President Osorio that I desired to meet privately first with Colonel Castillo Armas and then with Colonel Monzón. This was immediately arranged, and at 2 p.m. I met with Colonel Castillo Armas in one of the reception rooms, with only Mr. Urist present.

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[1] An unsigned copy of the Pact of San Salvador was transmitted to the Department of State as an attachment to despatch 3 from San Salvador, dated July 5, 1954, not printed (714.00/7–554).

[2] Earl Batten.

[3] No record of the referenced telephone conversation was found in Department of State files.

I told Col. Castillo Armas that I was sorry to hear that there had been some difficulties between him and Col. Monzón in reaching an understanding, that I believed this was the time for true patriots to put aside personal ambitions and interests and work together for the good of Guatemala. The basic and common aims of both sides, I said, should be the total eradication of Communism from the country and the restoration of peace and tranquility. The colonel was in absolute agreement. I said I could see no reason for a divergence of opinion between him and Col. Monzón, since I believed Col. Monzón also to be a sincere Guatemalan whose only interest was the welfare of his country. I pleaded with Col. Castillo Armas to leave the details of the future government and the question of who would be president of Guatemala to a time when representatives of both groups could sit down over a conference table in Guatemala and thrash out their differences. I repeated that this was not the moment to preoccupy themselves with details and programs, but that the important thing was to agree immediately on common aspirations for the good of their country and return together, arm in arm, to Guatemala, where the people were waiting to receive them. I suggested that both armies be joined together and march into the capital as one, as brother Guatemalans. Col. Castillo Armas said again he was in complete agreement. However, he believed Col. Monzón wanted to be president of the Junta, and that his military colleagues, after their long battle and sacrifices, would not accept it. I then told him I was going to speak with absolute frankness. "You know, and I know," I told him, "how the American people feel about you. Many American people think you should be the president of Guatemala, and some time in the not-too-distant future, say six months from now, you should hold free and democratic elections, and I personally will do all in my power to help you. For the present, I think you should be taken into the Junta. And, confidentially, I'll tell you something else. Col. Cruz Salazar (one of the three members of the Junta) told me that he was on your side, so you should have no problem at all." He seemed to be pleased and reassured by these last statements.

We completed our conversation at 2:30. I told him I was now going to see Col. Monzón and that I thought the two colonels and the diplomatic advisers should meet as a group at about 4:30 to clarify any remaining details which might need discussion.

I then met with Col. Monzón. He reiterated previous statements made to me, declaring that he was interested only in restoring peace and tranquility to Guatemala, that he had no personal ambition with regard to the presidency of Guatemala, and that, if necessary, he would be happy to sign a statement to that effect. The only point on which he was adamant was that he wanted to save the honor of the Guatemalan army. He said, quite logically, in my opinion, that since he had been appointed chief of the Military Junta by the army staff, he would have to return to Guatemala in the same capacity. He was in complete agreement with the idea of an immediate accord with Col. Castillo Armas on general objectives. He said he would be happy to accept Col. Castillo Armas in the Junta, and that after they had returned with me to Guatemala the Junta could elect Castillo Armas president.

I asked Col. Monzón if there were any immediate problems he felt needed discussion. He said the only serious problem was getting food to the Government troops in the field, and he hoped Castillo Armas would give immediate permission for supplies to be dropped. We terminated our discussion at 3 o'clock.

I then informed President Osorio of our discussions without going into detail, and told him I would return at 4:30 p.m. to meet with the two colonels and the other three advisers.

After luncheon at Ambassador McDermott's residence, I returned shortly before 5 p. m. to the Palace and met with the group participating in the negotiations.

I led off the discussions with a résumé of the principal objectives both parties should take into consideration before they went into detailed negotiations. This was a re-statement of my introductions to the talks held with the two colonels. The entire group agreed. Col. Castillo Armas, however, who had meanwhile been talking with his legal advisers (Lic. Juan Cordova Cerna, Lic. Luis Alberto Coronado Lira, Lic. Carlos Salazar, *hijo*), brought up the question of the number of members in the Junta. He pointed out that if only he joined the Junta there would be a preponderance of members representing the other side. He said that he would like, therefore, to include another person representing his forces and proposed the name of Major Enrique Oliva,[4] who, in his opinion, was one of the most capable and hard-working professional military men in Guatemala. He said Major

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[4] Enrique Trinidad Oliva Quintana.

Oliva had no political ambitions and would be a valuable asset to the Junta. Col. Monzón accepted this proposal without reservation. One of the advisers then pointed out that there would still be three against two. The Papal Nuncio offered as a solution the possibility of having a Junta of six members, three for each side. This point was discussed for some time, but was finally dropped when it was agreed that 1) three members on each side could easily lead to a stalemate when voting takes place, and 2) a Junta with six members was really too large and unwieldy.

The advisers all agreed with me that on the details of the future administration of the country all should be left until the two colonels had returned to Guatemala and were able to sit down with the other members of the Junta to work out their problems together. The entire arrangement seemed satisfactory to both parties and to the diplomatic advisers, and the meeting was terminated at 6 p.m. so that the two colonels and their legal advisers could meet alone to draw up a statement of their common decision. Meanwhile, the diplomatic advisers retired to a nearby room to be available at any time for consultation.

From that moment until midnight we held individual and group meetings. Castillo Armas' advisers were apparently in disagreement with the colonel and felt that any document signed by him should be *ad referendum*. He could then return to his headquarters in Chiquimula to obtain the approval of his staff officers. I fought strongly against this, reviewing once again the importance of arriving at a general agreement then and there, because I felt that if Castillo Armas needed the approval of his staff, it would be only just that Col. Monzón would also have to obtain the acquiescence of the two other Junta members in Guatemala, thereby losing the opportunity to create the maximum psychological impact which could be expected from their immediate return together. I was finally forced to talk with Castillo Armas alone and ask him point blank whether he was the chief of his "outfit", since every time he agreed on a point he subsequently changed his decision after conferring with his advisers. I told him that if he was not the top man in his organization, I would appreciate his telling me who was, so that I could deal with that person.

I believe this question was the turning point of the negotiations, and Castillo Armas and his advisers accepted Monzón's concession that within fifteen days after the signing of the pact he would agree to the election of a new Junta president. Without actually stating it, the implication was that Castillo Armas would be elected.

From midnight when the two sides finally arrived at an agreement on the basic points, the legal advisers spent their time conferring and arguing on the format and wording of the pact, and at 4 a. m. the document was finally completed.

About 3 a. m., while I was awaiting the completion of the first draft of the pact, I was visited by the Nicaraguan Ambassador to El Salvador, Sr. Carlos Duque Estrada, who said he brought an urgent message from President Somoza. He said that President Somoza wished to advise me that in view of the "breakdown" in negotiations between Castillo Armas and Monzón, he urged the entire negotiation party to come to Managua as his guests to continue their discussions there. If this were not feasible, he said, then he strongly advised that Col. Castillo Armas be made president of Guatemala, and that Col. Monzón be made Minister of Defense. He mentioned several other Cabinet appointments, which I do not recall. I thanked Ambassador Duque in the name of my Government and asked him to convey my expressions of gratitude to President Somoza. I told him, however, that it now appeared that the two sides were arriving at a satisfactory agreement and that I did not believe it would be necessary to trouble President Somoza with any of the negotiations.

Meanwhile, preparations had been made for a formal ceremony in the large banquet room of the Palace, and for the proceedings to be broadcast by radio. The entire press, both national and international, who had also been up all night awaiting the historic moment, were allowed to witness the event and take photographs. The pact was signed by the two colonels; Sr. Carlos Azucar Chávez, acting Foreign Minister in the absence of Sr. Peralta . . .; the Papal Nuncio, and Col. Funes. I suggested to the members of the negotiating group that the name of the representative of the United States of America be omitted from the document, thus giving the Salvadoran Government recognition as the principal mediator. Actually, Sr. Peralta had disappeared shortly after the general negotiations meeting had ended at 6 p.m., and I did not see either him or President Osorio again until the following day.

I went immediately to the United States Embassy with Ambassador McDermott in order to send the following wire[5] to the Department:

> "Holland from Peurifoy. Pact between Armas and Monzón signed five a.m. today. Both return with me to Guatemala 11:30 a.m. (Friday, July 2). Junta increased to five members. Monzón remains President for two weeks at which time members vote for new president. Election promised soon as practicable after peace and tranquility restored."

I then returned to Ambassador McDermott's residence at 6:45 a. m., intending to make preparations for departure at 11 a. m. with the two colonels and their advisers, since this had been the agreement made with them. Col. Castillo Armas, when he agreed to return with me to Guatemala, had explained that he was going to leave at 6 a. m., shortly after signing the pact, for Chiquimula in order to give orders to his troops and, I assume, to report to his staff on what had taken place in San Salvador. He had assured me that he would return to San Salvador in time to take off at 11 a. m. However, when I called him to verify the hour of departure, I was informed that he and members of his staff had left for Chiquimula and Honduras but had not stated when they would return. I was finally able to locate Col. Castillo Armas' principal legal adviser, Lic. Juan Cordóva Cerna, who told me that he regretted that Col. Castillo Armas could not return by 11 a. m. as planned, that he had to visit both Chiquimula and Tegucigalpa for "very personal reasons", and that he would either return that afternoon or the following morning.

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[5] Reference is to unnumbered telegram, from San Salvador, dated July 2, 1954; it is in file 714.00/7–254. There are slight discrepancies between the telegram as sent and as quoted by Ambassador Peurifoy in this despatch.

After conferring once more by telephone with Mr. Holland, who believed as I did that it was important for the two colonels to return to Guatemala together, I alerted Col. Monzón and his party and ordered Col. Vernon P. Martin, Embassy Air Attaché, to have his crew stand by. When Col. Castillo Armas did not return that day, I made plans to take off the following morning, July 3, at 11 a. m.

The following morning, before going to the airport, I called on President Osorio to thank him in the name of my Government for his magnificent hospitality and for the significant role he had played in bringing to a satisfactory conclusion the important negotiations which would bring peace and order to the sister republic of Guatemala. He in turn expressed his satisfaction at the results of the negotiations and asked me to convey to the Government of the United States his appreciation of the part played by my country in this important Central American event. He then presented me with a medallion commemorating the Lempa River hydro-electric plant at Chorrera del Guayabo, and a special set of commemorative postage stamps as a token of his personal esteem and appreciation.

Col. Castillo Armas arrived in San Salvador about 10 a. m. and also visited the Palace to confer with President Osorio. He and his party finally arrived at the airport about 12:20 p. m. and we took off in the Air Attaché's plane at 12:43. Accompanying me on the return trip were Colonels Castillo Armas and Monzón; Col. Miguel Angel Mendoza, officer of the Castillo Armas air force; Major Arriaga, as personal aide to Col. Monzón; Major Enrique Oliva, one of the two new members of the Junta; Licenciados Juan Ibarra and Eduardo Cáceres Lehnhoff, legal advisers to Col. Monzon; Lic. Luis Alberto Coronado Lira, legal adviser to Col. Castillo Armas; the Papal Nuncio; Ambassador Funes, and Mr. Urist. Arrangements had meanwhile been made for nine planes of various types, representing both the regular army and the Castillo Armas forces, to accompany our plane in a formation flight over Guatemala City before landing at Aurora Airport. We landed at 1:30 p. m.

JOHN E. PEURIFOY

Editorial Note

In a memorandum of conversation summarizing the Secretary's staff meeting, held on July 7, 1954, at 9:15 a.m. in the Secretary's office, Walter K. Scott recorded, *inter alia*, the following exchanges:

"3. *Guatemala.*

"Mr. Murphy questioned whether or not Ambassador Peurifoy should now be transferred from Guatemala inasmuch as the situation had improved so. Another Ambassador not so involved might be better now.

"Mr. Holland stated that he would question the timing now—that Ambassador Peurifoy could be moved at a later time; he suggested the first of the year, but that transfer at an earlier date would bring about unnecessary criticism that the United States had placed him there only to foment revolution.

"The Under Secretary stated that Ambassador Peurifoy had mentioned to him that if the Guatemalan situation were cleared up he would like a more important post. The Under Secretary stated that he felt he deserved something better but that Mr. Holland was right—that any transfer should be delayed until later in the year.

"Mr. Holland mentioned that he was trying to work out possible courses of U.S. action to prevent Guatemala from reverting to a dictatorship. He felt that if this happened we would suffer serious propaganda loss throughout the Americas. He hoped to have recommendations to the Secretary by tomorrow.

"Replying to the Secretary's inquiry, Mr. Holland covered the various documents under preparation for release on the Guatemalan incident. They included a chronology of events in Guatemala since 1944 presently being drawn up from Guatemalan Government documents made available to us by the military Junta. He also mentioned that a propaganda booklet was under preparation on the Guatemalan incident for release to the Other Americas.

"4. *British White Paper.*

"Mr. Holland reported that the British are preparing a 'White Paper' on our actions in the United Nations on the Guatemalan incident. It was pointed out that this probably developed from debate in Parliament which required a government report. The Secretary stated that Eden had mentioned to him the possibility of the Government coming under serious attack over the incident. The Secretary stated that the matter was of serious moment to the United Nations, particularly as it was a precedent for requests in the future from other regional organizations to handle similar matters. He felt that we would not like an incident in the Arab world to be handled by the irresponsible Arab League rather than the United Nations.

"The Secretary approved Mr. Merchant's office handling the contact with the British over this matter, working with L, UNA and ARA.

"Mr. Phleger stated that we should point out to the British that at Caracas we opposed consideration of the item on European colonies in the Americas on the basis that such a matter should be considered in the United Nations rather than in the Association [*Organization*] of American States, inasmuch as it involved countries outside the Association. He felt that our action in the United Nations vis-à-vis Guatemala was the other side of this coin and that the British could not have our support both ways." (Secretary's Staff Meetings, lot 63 D 75)

Secretary Dulles presided at the meeting, which was attended by 18 other participants.

414.608/7-754: Circular telegram

The Secretary of State to Certain Diplomatic Offices[1]

CONFIDENTIAL WASHINGTON, July 7, 1954—8:07 p.m.

15. In your discretion and in degree commensurate any cooperation you consider shown by Government to which you accredited orally convey appreciation US Government for actions taken or promised regarding prevention of arms shipments to Guatemala and related control flag vessels and general idea cooperation with American republics in meeting threat to peace. State that new Guatemalan Government apparently of such complexion that US able withdraw request for cooperation in arms control.

DULLES

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[1] Drafted by Deputy Assistant Secretary Woodward, with the assistance of Mr. Ohmans; approved by Assistant Secretary Holland. Sent to the Embassies in Athens, Belgrade, Brussels, Copenhagen, HICOG Bonn, Helsinki, Lisbon, Madrid, Oslo, Paris, Rome, The Hague, Stockholm, and London; repeated for information to Bern, Guatemala City, USPOLAD Trieste, and USUN in New York.

714.02/7-854: Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

SECRET GUATEMALA CITY, July 8, 1954—9 a.m.
[Received July 8—3:07 p.m.]

45. As arranged yesterday with Colonel Castillo Armas (Embtel July 6)[1] Juan Cordova Cerna called on me this afternoon to explain Castillo's views on future organization of government.

Cordova Cerna said Guatemala was currently distracted with politics, fears of army plots against Castillo and possibility of Communist uprising; what was needed was strong established government to insure internal order and put end to politicking. I asked whether he thought a Junta composed of Castillo Armas, Monzon and Oliva would be sufficiently strong, and he replied affirmatively without hesitation. Having in mind current whispering campaign against Monzon, I then asked whether Castillo's friends would accept Monzon as member of Junta and cooperate loyally with him, and Cordova said he thought they would.

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[1] Reference is to telegram 32, from Guatemala City, not printed (714.00/7-654).

We then discussed whether Castillo could run for constitutional presidency if he assumed presidency of Junta. Cordova Cerna said under existing constitution he was disqualified because he had led revolt against previous government; hence it would not matter whether he was president of Junta, a plain member or held no government office. While constitution could be revised, Cordova said he and Castillo thought it preferable Castillo should complete Arbenz term of office (to March 1957), and meanwhile have new constitution drawn up and hold presidential elections in which he would not be candidate. In interim country would be governed by basic status [*statutes*?] which would provide definite limitations on governments powers and guarantees of people.

He then launched into lengthy discussion of his plan for constituting government: Under Junta, there would be 5-man political council to formulate policy on political matters and 15-man planning council to formulate and coordinate economic policy. Policies drawn up by councils, when approved by Junta would be executed by ministries, which would be stripped of policy making functions. Economic policy would be based on free enterprise system, foreign investment would be encouraged on mutually advantageous terms, and social gains of workers would be retained and carried further.

Cordova Cerna impressed me as highly idealistic and he had obviously studied question thoroughly, but his ideas might be difficult to carry out here.

I have reason to believe Monzon will accept reduction of Junta to three members,[2] will suggest holding elections in next few days and will himself propose Castillo for presidency of Junta. At moment this seems best way to solve dilemma of army–Castillo relationship.

PEURIFOY

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[2] On July 7, 1954, the five-member Guatemalan Junta of Government unanimously elected Castillo Armas as its permanent President; Colonels Cruz and Dubois resigned, leaving the new Junta comprised of Castillo Armas, Colonel Monzón, and Major Oliva.

714.02/7-1054

Memorandum by the Secretary of State to the President

SECRET

WASHINGTON, July 9, 1954.

Subject: Recognition of New Guatemalan Government

We have received telegrams[1] from Ambassador Peurifoy in Guatemala reporting that the new Government is constituted in Guatemala and that it has sent our Embassy a formal note[2] stating that it is prepared to fulfill the international obligations of Guatemala. The new Government, which was formally established on July 2, appears to control the entire territory of Guatemala.

We are ready to send a circular telegram[3] to all the other Governments of the American Republics (and to London, Paris and Ottawa which have indicated from time to time that they wish to coordinate recognition actions with us) asking for the views of the Governments, of the other American Republics and indicating that we are considering recognition of the new Guatemalan Government on July 13. This will allow time for some other countries to recognize sooner (El Salvador and Costa Rica have already done so), and for other countries to coordinate with us, so we will not be conspicuously in the lead or behind.

I would appreciate your informing me whether you approve of this action.[4]

JOHN FOSTER DULLES

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[1] Apparent reference to the following telegrams from Guatemala City, none printed: unnumbered, dated July 2, 1954 (714.00/7-254); 26, dated July 6, 1954 (714.02/7-654); and 31, dated July 6, 1954 (714.00/7-754).

[2] Reference is to Guatemalan Ministry of Foreign Relations note no. 10248, dated July 7, 1954, not printed; the note and a translation were transmitted to the Department of State under cover of despatch 7 from Guatemala City, dated July 8, 1954, not printed (714.00/7-854).

[3] Sent as circular telegram 24, dated July 9, 1954, to all diplomatic posts in the American Republics, except Guatemala City, and also to London, Paris, Ottawa, and Taipei; repeated for information to Guatemala City (714.02/7-954).

[4] The source text bears the following handwritten notation initialed by President Eisenhower: "10 July 1954 O.K."

The United States extended recognition to the new Guatemalan Government on July 13, 1954 (714.02/7-1354).

S/S–OCB files, lot 62 D 430, "Guatemala, 1954–1955"

Report Prepared in the United States Information Agency[1]

SECRET

WASHINGTON, July 27, 1954.

REPORT ON ACTIONS TAKEN BY THE UNITED STATES INFORMATION AGENCY IN THE GUATEMALAN SITUATION

In concert with other departments and agencies and for the purpose of supporting specified foreign policy objectives, the Agency began last November–December 1953 to regroup its limited resources in an effort to meet the growing crisis conditions in Guatemala and neighboring countries. Unfortunately, the sharp cutback in Agency funds and personnel during the summer and fall of 1953 had forced reduction of the already small operations in the area, especially in various smaller countries where the programs amounted to one-man holding operations. Actions taken by the Agency to remedy these deficiencies and to carry out an effective operation may be grouped under three time-periods: the six months prior to the communist arms shipment; the crisis period of May–June; and the current post-crisis period.

I. *Pre-Crisis Period*

A. *Policy*—Up to the 10th Inter-American Conference at Caracas in March much Latin American opinion refused to concern itself with the communist issue in Guatemala, either regarding the Arbenz regime as a "home-grown" revolutionary movement dedicated to improving the lot of the exploited Guatemalans, or preferring to dwell on the United Fruit issue and speculate as to United States motives of economic imperialism.

In this context our principal information effort was directed toward creating greater awareness throughout the Hemisphere of the real threat to peace and security posed by the verifiable communist penetration of the Guatemalan government. In accordance with established policy at that time, this effort stopped short of accusations, directly attributed to the Agency, against the Arbenz regime as communist-dominated but did include the preparation and placement of unattributed articles labelling certain

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[1] This report was submitted to the Operations Coordinating Board at the request of the Acting Director of the U.S. Information Agency. It was circulated to Board members under cover of a memorandum from Elmer B. Staats, dated Aug. 2, 1954, which reads in part as follows: "It is believed that this report is pertinent in connection with recent discussions by the Board of the desirability of having a common approach to information activities in connection with the Guatemalan revolt."

Guatemalan officials as communists, and also labelling certain actions of the Guatemalan government as communist-inspired.

Even though Guatemala alone voted against the anti-communist resolution at Caracas, public attention in Latin America did not begin to focus on the issue of communist penetration and resultant threat to peace and security. With this in mind, the Agency intensified its efforts to get irrefutable evidence publicized throughout the Hemisphere, again short of directly labelling the Arbenz regime as communist but using its actions as self-evident proof.

B. *Operations*—In November and December, 1953, the information program in Guatemala was reviewed with Ambassador Peurifoy, the Department of State, and the Central Intelligence Agency. A new Public Affairs Officer was appointed and provisions were made for such internal strengthening of personnel and funds as events might require. In order to give direct support to the Guatemalan program, long seriously handicapped in operations through Guatemalan government restrictions, and to help meet the problem of communist penetration in the Central American area, a regional servicing operation was developed whereby USIS Mexico could give program support to Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama. This servicing concentrates on anti-communist materials produced by USIS Mexico in direct collaboration with the other posts and tailored to meet specific needs in individual countries. A third phase of organizational build-up was a considerably expanded 1955 budget projection, parts of which were to be initiated with 1954 funds, especially the strengthening of the one-man holding operations in the smaller countries.

Elsewhere in the Caribbean, and related to the Central American plan, a new office was established in Port-of-Spain for the Trinidad–British Guiana–Barbados area. The existing small operation for the French West Indies, based in Martinique, was re-examined and provision made for selected expansion.

Media and field operations were directed to intensify their efforts in the collection, preparation, and placement of materials demonstrating communist design on, and penetration of, the Hemisphere. A successful project in January, for example, was the preparation here of a series of articles exposing Guatemalan communists Fortuny and Gutierrez; these were planted in a Chilean newspaper and later reprinted in selected other countries with Chilean attribution.

Throughout this period and on through the crisis itself emphasis was placed on cross-reporting Latin American opinion which opposed the Arbenz regime and supported the U.S. stand as taken at Caracas.

The Agency's special coverage team at the Caracas Conference fed out a continuous flow of news, backgrounders, photos, and tape recordings, concentrating on the anti-communist resolution and Guatemala's lone opposition. Through direct Wireless File to all missions and fast pouch these materials were disseminated by all field offices throughout the conference with good placement, backed up by frequent background briefings and conversations with editors, commentators, and public opinion leaders. Film coverage was arranged for newsreel and TV outlets and, for future continuing use, full film documentation was developed on the anti-communist resolution, including speeches by Secretary Dulles and Assistant Secretary Holland.

II. *Crisis Period*

A. *Policy*—The communist arms shipment to Guatemala in mid-May marked a definite turning point: first, among the small neighboring countries fearing intervention or aggression; second, elsewhere in the Hemisphere a mixture of surprise, concern and even alarm at this unexpected development; third, elsewhere in the world as the issue became headline news and the communist propaganda network openly took up Guatemala's cause. Especially significant was the attention given to the problem in Moscow radio broadcasts which from the beginning had been high and became a continuous clamor, so that by June 23 one *Pravda* article was broadcast thirty separate times.

As part of the basic U.S. decision to see the issue through to an emergency OAS meeting of consultation, the Agency immediately embarked upon an aggressive information effort, utilizing all available resources, to expose and discredit the Arbenz regime as communist-dominated, to dramatize the threat to the peace and security of the Hemisphere, and to encourage positive action by other American Republics. This effort included use of direct attribution but continued to emphasize cross-reporting of desirable Latin American opinion. Strong advantage was taken of key developments which helped swing Latin American opinion to our side, such as the Soviet arms delivery and the Guatemalan-Soviet maneuver in the U.N.

Output was directed not only to the Hemisphere but also to other parts of the world where, because of public unfamiliarity with the Latin American scene, communist propaganda found ready acceptance. Content was aimed at such attitudes as: skepticism or outright disbelief regarding the U.S. position, ranging to public acceptance of allegations that the U.S. engineered the revolution and that U.S. officials had strong financial interests in the United Fruit Company; public rejection of the premise that international communism had in fact subverted the Guatemalan government; reaction in principle to the U.S. stand on searching vessels in American waters and to the U.S. opposition to U.N. Security Council consideration of the Guatemalan request.

Information treatment was complicated by censorship within Guatemala which, for a period, gave the communist side a distinct advantage in getting out its story first; also by the marked tendency of certain foreign news agencies to cross-report reactions adverse to the U.S. and to select comment out of context.

B. *Operations*—Benefitting from the previous organizational build-up, an emergency working party under the leadership of the Assistant Director for American Republics was established in the Agency, with special liaison officer assigned to Assistant Secretary Holland in the Department of State. Specialists were reassigned within the Agency to the Policy and Programs Staff for Latin America, the intelligence-research staff, and the press, radio, and films media. A series of directives was issued formulating the various tasks to be undertaken by media and field operations.

Despite the lack of lead time in the policy decision to change from a largely unattributed effort to an aggressive labelling campaign, more than 200 articles, backgrounders, and scripts were prepared and transmitted by Wireless File, cable, and fast pouch during four weeks beginning the end of May for press and radio placement abroad. These were developed partly from public sources and partly from declassified intelligence from State and CIA. Content ranged from coverage of daily developments in Guatemala, Washington, the U.N., and elsewhere in the area, to original verified exposés of communist penetration. Illustrative of numerous pamphlets prepared, a "Chronology of Communism in Guatemala", written here and printed in Habana in 100,000 copies, was distributed to all posts in Latin America. In addition some 27,000 pieces of anti-communist cartoons and posters were expedited to the field for selective placement. Based on Agency materials WRUL broadcasts were stepped up throughout the crisis period. Newsreel coverage of Guatemala's action in the U.N. and the emergency OAS meeting were released worldwide. Three special film subjects, including the film "Caracas: Resolution and Reality," were sent to all posts in the area.

Not only posts in this area but selected posts around the world regularly filed back useful stories for cross-reporting together with analyses of local opinion trends. When it became clear from these reports and other sources that censorship inside Guatemala was preventing foreign correspondents from reporting the story, while at the same time Guatamalan and allied sources were pushing their own version of the revolt, the Agency detailed an experienced press officer to Tegucigalpa in Operation Berry. This consisted of assembling daily, from intelligence sources, a succinct account of events within Guatemala and forwarding by cable to Embassy Tegucigalpa. The press liaison officer informally passed this information along to selected correspondents. Coverage immediately began to improve, helping also to offset cross-reporting by foreign news agencies of anti-U.S. comment.

Field reports now coming in show effective use of materials produced here and by the field posts themselves. Wireless File materials were well received by both metropolitan and provincial papers as timely and effective and were widely printed, frequently without attribution to USIS. This was also true of the anti-communist cartoon prints and plastic plates. Through well-organized mailing lists the various pamphlets and posters were put into the hands of selected individuals and groups. Local radio outlets likewise were successfully brought into play. For example, the important CMQ network in Cuba early in June agreed to use all hard-hitting commentaries on Guatemala at peak listening hours, without USIS attribution. Selected films were redirected to key groups throughout the area, including films exposing communist activities in other countries clearly paralleling the Guatemalan situation.

III. *Post-Crisis Period*

At the present time, the information treatment of the Guatemalan problem has entered the phase of disseminating the documentation only now becoming available from within Guatemala, which confirms the communist nature of the Arbenz government and demonstrates the truth of the representations previously made by the United States. In this task, the Castillo Armas government can be expected to help by exposing the atrocities and the tactics of the previous administration. Since this is the first time a communist government has been overthrown, a full case history of "rise and fall" is available, pointedly useful on a sustained basis in arousing Latin America to the methods and dangers of communist penetration. This line is also being carried worldwide to offset the large measure of skepticism which characterizes public reaction to the Guatemalan situation.

As part of the basic job of getting verified facts on communist penetration in Guatemala, the Agency detailed two cameramen to Guatemala as soon as it was possible to enter the country. A considerable quantity of sound film documenting communist atrocities is already on hand. Together with other film materials this footage will be developed into two permanent film records on communism in Guatemala, one short subject for immediate theatrical release worldwide and one longer subject for continuing use. A similar effort is being made with regard to still photos and recorded interviews. These and other efforts are in addition to publicizing official statements or reports as they become available for public use.

The Agency will continue to give high priority to Guatemala during what undoubtedly will be a long period of rehabilitation. A long-range effort of re-orientation seems indicated, at government levels and particularly in the interior areas where land has been distributed and doubts about the future persist. The Agency desires to play its part in a coordinated multi-Agency effort and has informally exchanged views with the Department of State on the type and size of resources that might be employed.

In addition to efforts within Guatemala, there is urgent need for a marked step-up in the information program for the Hemisphere, for the two-fold purpose of aggressively exposing communist penetration and bolstering democratic forces. As in efforts directed toward Guatemala, this should be part of a multi-Agency plan of action, bringing to bear on the Hemisphere greater attention and larger resources than the U.S. government has given it in the years since the war.

Editorial Note

By an exchange of notes signed at Guatemala City, July 27 and 30, 1954, and entered into force on the latter date, the United States agreed to permit the transfer to Guatemala of military equipment and matériel, including F–51 aircraft, subject to certain understandings. The notes were transmitted to the Department of State, under cover of despatch 211, from Guatemala City, dated September 14, 1954, not printed (714.5622/9–1454). For text of the notes, see *United States Treaties and Other International Agreements* (UST), volume 5 (pt. 2), page 1926, or TIAS No. 3059.

Editorial Note

By an exchange of notes signed at Washington, July 28 and August 28, 1954, and entered into force on the latter date, the United States and Guatemala agreed to extend and to amend the agreement of May 19, 1943, relating to the construction of the Inter-American Highway in Guatemala. For the text of the notes, see 5 UST (pt. 3) 2244, or TIAS No. 3084.

Guatemala Embassy files, lot 60 F 65, "350—Guatemala"

Minutes of a Meeting, Held at the Department of State, August 8, 1954[1]

SECRET

Subject: Guatemala

Participants: Mr. Henry F. Holland
Ambassador John E. Peurifoy[2]
Mr. Raymond G. Leddy
Mr. Jack D. Neal
Mr. John W. Fisher

Political Situation

Ambassador Peurifoy reported that the political situation was encouraging since the August 2 rebellion of Army elements[3] had been put down. Castillo Armas had tremendous popular support, and gave signs that he intended to use his power to consolidate his control firmly.

Castillo Armas proposed soon to call elections for delegates to draft a Constitution and elect a president for a specified period. This would terminate the Junta, and would be preferable to Cordoba Cerna's idea of submitting a "statute" to referendum, which would provide for continuation of Castillo Armas in power. Castillo's popularity right now was so great that no opposition candidate would have a chance, if one could be found. Mr. Leddy expressed concern over risking elections, pointed out the danger of adverse results, citing the case of Venezuela.[4] Mr. Holland felt the situations were dissimilar in that view of Castillo Armas enjoyed great popularity at this moment, and his potential opposition had not had three years to prepare, as had been the case in Venezuela.

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[1] Drafted by Mr. Fisher on Aug. 12.

[2] Ambassador Peurifoy was in Washington for consultations at the Department of State during most of the early part of August; he returned to Guatemala on Aug. 16.

[3] Documentation relating to this subject is in file 714.00.

Cordoba Cerna appeared to be the best man in sight as advisor to Castillo Armas, and perhaps eventually president. He would return to Guatemala next week, after Ambassador Peurifoy had had an opportunity to confer with him. Ambassador Peurifoy would return shortly afterwards.

Labor

Principal problem is lack of leaders. Solutions suggested: creation of a labor leader training institute in Guatemala, which has been proposed by ORIT leaders. Guatemalan leaders may also be trained in the United States, where they can observe highly developed trade union practices, and in Puerto Rico, where they can be seen adapted to more primitive conditions.

A further problem is that of employers attitudes. The IRCA is reported to have begun to institute a retaliatory policy against employees who have been strong union men, as distinguished from Communists or sympathizers. This must be stopped, as it will put United States concerns in the van in a turn-back-the-clock operation. Montgomery[5] and others should be approached on this problem.

The Guatemalan labor code will have to be overhauled or replaced. Vallon[6] will be able to make recommendations on a United States or other technician who can help with this.

A fourth problem is that of the affiliations of such Guatemalan labor organizations as develop there. Our position is that we support free labor organization at the local level, as well as free association with international groups except Communist controlled or anti-United States ones. We, therefore, look with approval on affiliation with ORIT, but that is Guatemala's business.

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[4] Apparent reference to the Venezuelan national election held on Nov. 30, 1952; see Mr. Miller's memorandum to the Secretary, Dec. 5, 1952, p. 1635.

[5] Presumably Joseph W. Montgomery, vice president, United Fruit Company.

[6] Edwin E. Vallon; on detail from the Department of State to the Department of Labor from June 30, 1952 to mid-July 1954, when he was assigned to temporary detail as labor consultant to the Embassy in Guatemala. He was appointed labor attaché on Dec. 6, 1954.

Asylees

There were a total of 770 persons who took asylum after Arbenz' downfall. The Castillo Armas government considers them to be in four categories: (1) women and children in asylum only because of family relationships; (2) Communists; (3) criminals; and (4) relatively harmless members of the Arbenz political regime. The Guatemalans are examining each case to determine whether the individual is guilty of crimes or Communist activities. The Guatemalan Foreign Office has no plan for disposing of the asylee problem.

There are four alternative courses: (1) turn all the asylees loose in the hemisphere with safe conducts; (2) keep all or many of them holed up in Embassies indefinitely—the Haya de la Torre[7] solution; (3) submit to the OAS;[8] (4) try to persuade the host governments to withdraw asylum from criminals and Communists, i.e., evict them from the Embassies. The host governments would have to be assured that the evictees would get humane treatment, i.e., Guatemala would have to guarantee prosecution in good faith of the criminals, to send to the Iron Curtain any Communists choosing to go there and accepted by a Soviet country, to free the harmless asylees, and to try to rehabilitate the dangerous ones. Alternative courses 1 and 2 constitute no solution for obvious reasons, and No. 3 would probably result in interminable debate and no solution.

Therefore, Ambassador Peurifoy should urge the Government to release the women and children, and to guarantee the humane treatment mentioned in No. 4 above so that arrangements could be made with host governments that the latter withhold or withdraw asylum from people active on behalf of international Communism, and from criminals, both upon presentation of charges supported by prima facie evidence. If the Guatemalans accept, Mr. Holland should go to Mexico City to try to sell it to President Ruiz Cortines. Mr. Holland said Generalissimo Trujillo liked the plan but thought it wouldn't work. An alternative would be to issue safe conducts conditioned on going to an Iron Curtain country. Mr. Fisher should draft a memorandum[9] to the Secretary recommending this course.

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[7] Víctor Raúl Haya de la Torre was a Peruvian political leader who had sought asylum in the Colombian Embassy at Lima in January 1949, and was unable to obtain safe conduct to leave the Embassy until March 1954, when the Peruvian Government allowed him to proceed to Mexico.

[8] In a memorandum to Deputy Assistant Secretary Woodward, Director of the Office of South American Affairs Atwood, and Mr. Burrows, dated July 5, 1954, Assistant Secretary Holland stated that "a novel, but perhaps practical solution" to the problem of the disposition of Communist leaders who took asylum in different Embassies in Guatemala "might be the establishment of two or three large prison camps, operated by the OAS itself and in which Communist agents would have a chance to demonstrate their eschewal of Communism as the price of liberty." (714.001/7–554) In a memorandum to Mr. Holland, dated July 7, 1954, Mr. Burrows commented that he believed that the Assistant Secretary's suggestion was "not a feasible or practicable one" (714.001/7–754), and in a memorandum to Mr. Holland, dated July 13, 1954, Mr. Woodward stated in part that the "establishment of an OAS detention center would be likely to create so much bad publicity that it should not be suggested unless we are certain that the dimensions of the problem are so great that they cannot be handled by Guatemala alone." (714.001/7–1354) There is no indication in Department of State files that Mr. Holland pursued the idea of a detention center.

Economic

The Embassy had submitted some recommendations on FOA programs in agriculture, health and sanitation, and education. Our agricultural experiment station staff should be reinforced, and the corn breeding program examined for possible inclusion. The Roosevelt Hospital should be finished off as quickly as possible.

Ambassador Peurifoy recommended that strong assistance be given the American School in Guatemala. It badly needs a new building. If the FOA cannot do it, thought should be given an EXIM or other type of loan.

The Guatemalan school system, formerly riddled with Communists, should be restored as fast as possible. A suggestion is the importation of teachers from other countries, after an expert survey, possibly by FOA, reveals the requirements and recommends remedies.

The FOA labor exchange program should be implemented. An instruction[10] on this has already gone down to the Embassy.

Ambassador Peurifoy should try to get the Government to invite Muñoz Marin[11] to visit Guatemala. Further discussion and planning of ways in which the many good examples set by Puerto Rico can be made useful to Guatemala can then go forward.

Financial

Guatemala has a public internal debt of about $30,000,000. The Government would like to get a 30 million dollar 6-year loan or series of loans, without any publicity. It would be used to pay off the 4 to 6 million immediately and urgently due in back salaries to government employees, to start immediately a public works program, including low cost housing, and hospitals in seven zones, to complete the Roosevelt Hospital, to complete the Inter-American and possibly the Atlantic Highways, to install a $7 million hydro-electric plant at Lake Amatitlan and other projects.

A secret loan is impractical. Guatemala may be able to get loans from several different private banks, possibly with EXIM guarantees.

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[9] *Infra.*

[10] Not identified.

[11] Luis Muñoz Marin, Governor of Puerto Rico, 1949–1957.

The Guatemalans need first of all a fiscal expert to help them find out their true financial condition. The IBRD should send a team down to examine the economy and outline what it can do in the way of loans. Sound projects not financed by IBRD should be supported by EXIM Bank loans.

Minister of Communications Prado Velez,[12] or whoever is going to be directly responsible, should be urged to draw up plans and come to the United States to discuss them in concrete terms.

Mr. Neal should look into ways and means of furnishing Guatemala with a short term loan to meet its immediate operating needs.[13]

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[12] Martín Prado Velez.

[13] During the latter part of August and early September, officials in the Department of State discussed the possibility of a short-term loan for Guatemala against Guatemalan gold reserves. In telegram 247, from Guatemala City, dated Sept. 7, 1954, Ambassador Peurifoy stated in part the following: "Federal Reserve loan does not appear necessary since further review here indicates probability Guatemalan Government can for the present meet its obligations." (814.10/9–754)

714.001/8–1054

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State

CONFIDENTIAL [WASHINGTON,] August 10, 1954.

Subject: Asylee Problem in Guatemala

Discussion:

There has been no progress toward satisfactory disposition of the Communist and other dangerous asylees in Guatemala. Of the 770 persons who took refuge in nine Latin American missions in Guatemala after the fall of the Arbenz Government, only a few women and children have been granted safe conducts out of the country. The Guatemalan Government while investigating the cases of asylees for evidence of Communist or criminal activities, has developed no policy other than to resist the growing pressure for safe conducts for all asylees, recognizing the danger of releasing into the hemisphere many Communists and sympathizers among the asylees. The OAS can probably contribute little toward a settlement besides extended debate, either inconclusive or adverse to Guatemala. However, a continued impasse will lead to serious difficulties between Guatemala and other Latin American countries, especially the host governments. Of these, Mexico is the most important with over 300 asylees in its Embassy.

The most desirable solution would be one clearly establishing the principle that the traditional benefits of asylum should be denied international Communists. It would probably best be embodied in bilateral arrangements between Guatemala and the respective host governments along the following lines: (1) host to withdraw benefits of asylum from Communists and criminals against whom charges supported by prima facie evidence are presented, i.e., evict them from diplomatic premises into Guatemalan jurisdiction; (2) Guatemala would immediately give safe conducts out of Guatemala to the relatively harmless asylees and guarantee humane treatment to persons evicted from the embassies. In this respect Guatemala would specifically undertake to prosecute in good faith those accused of crimes, to offer transportation to Iron Curtain countries to Communists who elect to go there and are admitted, and to attempt to rehabilitate the remainder, releasing those found to be harmless.

In the event this kind of solution cannot be achieved, consideration should be given the alternative of Guatemala's granting safe conducts for dangerous asylees conditioned on their being transported to and accepted by an Iron Curtain country. These alternatives have been worked out in our conferences with Amb. Peurifoy.

Recommendation:

That Embassy Guatemala seek the Guatemalan Government's concurrence on the proposals suggested, and that if given, I personally visit President Ruiz Cortines of Mexico to try to persuade him to accept a solution along the lines outlined.[1]

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[1] Secretary Dulles approved this recommendation "subject to CIA views."

714.00/8–2754: Telegram

The Secretary of State to the Embassy in Guatemala[1]

SECRET PRIORITY WASHINGTON, August 31, 1954—7:25 p. m.

178. Department concerned lest threatened break between Castillo, Cordova Cerna and Monzon (urtel 225)[2] lead renewed violence and jeopardize anti-Communist victory achieved by June revolution. Cable your estimate current intentions Monzon and Castillo and military support on which all three men can count.

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[1] Drafted, with the assistance of Mr. Leddy, and signed by Assistant Secretary Holland

[2] The referenced telegram, dated Aug. 27, 1954, is not printed (714.00/8–2754).

On basis evidence available to Department it appears we have following alternatives:

(1) Support Cordova proposal to purge Monzon and subordinate Castillo to new group dominated by Cordova. If successful program would ensure effective elimination Communists from political life country. Disadvantages are Cordova's lack significant popular support except among conservative and business groups and uncertainty his ability control regular army and liberation military forces.

(2) Unlimited support of Castillo against Cordova and Monzon on basis his popularity with people, his control airforce and presumed control liberation forces and at least significant portion regular army. Disadvantage is his demonstrated lack of ability govern and risk defections and revolution now or later.

(3) Attempt persuade Castillo, Monzon and Cordova to collaborate until revolutionary changes better consolidated by taking following steps:

(a) Assure Monzon and regular Army we are not opposed to Army as an institution and recognize great majority officer corps loyal present Government. As long as regular Army loyal Government we will urge protection its legitimate interests. FYI only we would interpret this to include gradual and selective purge unreliable officers in such way as would minimize risk regular army officers will consider counter-revolution necessary to protect their jobs. End FYI. In this connection please comment probable reaction Castillo and Cordova to such an assurance to Monzon.

(b) Friendly but firm statement to Castillo and Cordova that we expect them collaborate for good Guatemala until revolutionary gains consolidated. In this connection not clear Department whether Monzon's resignation from Government at this time would provoke reaction from regular Army and whether Castillo or others pressing for his immediate resignation. Please clarify.

Department inclined believe third alternative preferable but recognizes decision must be governed by local situation. Submit Embassy analysis stating whether situation deteriorating so rapidly that immediate action necessary.[3]

DULLES

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[3] In telegram 234, from Guatemala City, dated Aug. 31, 1954, Ambassador Peurifoy reported that he had discussed the Guatemalan political situation with the three members of the Junta of Government, and that during the discussion Colonel Monzón remarked that in spite of the fact that the members of the Junta had collaborated loyally with each other, confidence had not returned to Guatemala, and "he had concluded that only by placing full powers in hands of one man in accordance with Guatemalan tradition could stability be assured. Hence, two days ago he had voluntarily suggested he and Oliva resign; Oliva had subsequently agreed." (714.00/8–3154) On Sept. 1, 1954, Colonel Monzón and Major Oliva resigned, the Junta was dissolved, and Castillo Armas assumed the provisional Presidency of Guatemala. On Oct. 10, 1954, the results of a popular election held in Guatemala confirmed Castillo Armas as President of the country.

Editorial Note

On September 1, 1954, the United States and Guatemala signed at Guatemala City a General Agreement for Technical Cooperation, which entered into force on the same date. The agreement was transmitted to the Department of State under cover of despatch 233, from Guatemala City, dated September 22, 1954, not printed (814.00 TA/9–2254). For text of the agreement, see 5 UST (pt. 2) 2010, or TIAS No. 3068.

714.00/9–254: Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State

CONFIDENTIAL GUATEMALA CITY, September 2, 1954—4 p. m.
PRIORITY [Received September 3—2:24 a. m.]

241. First night, following assumption of presidency by Colonel Castillo Armas, passed without incident. While government officials expressed confidence there would be no trouble they said suitable precautions against possible military uprising had been taken and press this morning reports Castillo together with former Junta members Monzon and Oliva visited principal military centers yesterday where Castillo received assurances support and Monzon and Oliva emphasized their resignations had been voluntary and not as result of pressure. However, some army officers are known to feel that Monzon's resignation violated pact of San Salvador and that they are under no obligation whatever to Castillo. Hence while Castillo has survived first critical moments possibility of disturbances later cannot be entirely discounted.

I talked with President Castillo for an hour last night at home of Minister of Communications Prado Velez and endeavored to impress on him need for decisive action if he was to hold confidence of country. I urged advantage be taken of resignation of Cabinet to replace incompetents with capable men. I then asked his views on proposal to hold Constituent Assembly, suggesting such action in near future desirable to enhance domestic and foreign prestige of his government and reassure Guatemalans who feared long period of dictatorship. Castillo said he planned to announce intention call Constituent Assembly in speech today but that he did not think it should be held until problem of unemployment had been substantially overcome since he feared jobless would be easy prey to Communist propaganda. I asked when he thought elections would be held and he said as soon as highway construction program could be gotten under way, especially construction of inter-American highway. I then told him all formalities had been complied with and that representative of BPR would arrive in Guatemala soon to assist in starting work. Castillo was pleased and said he would probably refer to this development in his address to nation.

President then said he had two matters he wished discuss with me: Labor and relations with American companies. On labor, he said he had had to take harsh measures to break Communist control of unions but that he wished to attract labor support for his government and avoid reputation abroad of being anti-labor. He thought time had come to reorganize unions and regretted that American companies were opposing his efforts. He hoped they could be induced to cooperate with government in eliminating Communists and setting up free unions, thus avoiding vacuum in labor movement, which Communists would take advantage of to organize labor clandestinely. I expressed full agreement with his views and said I knew Department also agreed.

It will be noted President's spontaneously expressed views on labor differ sharply from alleged government position as stated by IRCA Railway official who called on me yesterday (Embassy telegram 238).[1]

Continuing this conversation Castillo said that relations with American companies were generally excellent. Both UFCO and IRCA had expressed willingness revise their contracts to give greater benefits to government and he hoped detailed negotiations might be undertaken soon. Only Electric Power Company had not made any offer. I replied I hoped mutually satisfactory arrangements could be worked out with all companies especially in view of government's urgent need for additional revenue.

In conclusion President said his advisers were working on provisional law to permit exploration for petroleum to get underway at once and that later complete new petroleum law would be drawn up possibly with aid of US expert not connected with oil companies. I encouraged him to proceed along this line and mentioned Max Ball as outstanding authority on petroleum legislation.

PEURIFOY

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[1] In the referenced telegram, from Guatemala City, dated Sept. 2, 1954, Ambassador Peurifoy reported that at a meeting with officials of the leading American-owned companies in Guatemala, IRCA and other company officials had stated that they needed a minimum of six months "free of union activity" in order to clean out Communists so that they could reorganize their operations on a "stable basis", that the Guatemalan Government agreed, but would not act "while Department and Embassy sympathetic toward union movement." (814.062/9–254)

714.00/9–854:Telegram

The Ambassador in Guatemala (Peurifoy) to the Department of State[1]

CONFIDENTIAL GUATEMALA CITY, September 8, 1954—7 p. m.
PRIORITY

256. In talk with Foreign Minister Salazar[2] today I inquired about Guatemalan Government's policy on asylees explaining I had been confused by circumstance that President Castillo Armas in Salazar's presence had agreed to Department's proposal for making renewed effort to prevent dispersion of Communists and other undesirables throughout hemisphere and that I had subsequently learned through newspapers that safe conducts were being issued to all asylees.

Salazar, obviously embarrassed, said that until recently he had issued safe conducts only to persons of minor importance until about five days ago Mexican Ambassador had visited Castillo and asked that asylees be cleared out of Embassy before September 16, Mexico's national holiday. Subsequently, Castillo had instructed that safe conducts be issued to all asylees without distinction. Salazar said he had reminded Castillo of his agreement with me but Castillo had replied that nothing had been done and plan must have failed.

I replied it was extremely embarrassing for me and my government to have policy changed in this manner without our being informed and that our Ambassador in Mexico[3] had been conducting negotiations with Mexican authorities and planned to see President tomorrow. In conclusion I said with reference to Mexican Ambassador it was interesting to know whose advice Castillo accepted. Salazar repeatedly said he was sorry but feared nothing more could be done on this matter now.[4]

PEURIFOY

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[1] Repeated for information to the Embassy at Mexico City.

[2] Carlos Salazar Gática, Guatemalan Minister of Foreign Relations.

[3] Francis White.

[4] Circular telegram 135, dated Sept. 10, 1954, sent to the Embassies at Buenos Aires, Mexico City, San José, San Salvador, Santiago, and Quito, and repeated to the Embassies in the other American Republics, reads in part as follows: "[We] believe it is of the utmost importance that governments receiving asylees [from Guatemala] maintain both in their own interest and that of other American republics continuous and effective surveillance these persons while they remain in their jurisdiction, take measures assure prevention their engaging in subversive activities, and inform other American republics regarding destination should their efforts leave that country be successful. In our view appropriate destinations further travel for most of these individuals would be Guatemala in response extradition request that Government, or behind Iron Curtain." (714.00/9–1054)

814.00/9–3054

The Acting Secretary of State to the Director of the Foreign Operations Administration (Stassen)[1]

CONFIDENTIAL [WASHINGTON,] September 30, 1954.

DEAR MR. STASSEN: Since the overthrow of the pro-Communist Arbenz Government in Guatemala approximately three months ago, the Department of State and the Foreign Operations Administration have both given urgent and careful study to the problem of the economic rebuilding of that country, and the specific part which can be played by aid from our Government. A marked decline in economic activity consequent upon the disturbances of May and June of this year has been reflected in increasing unemployment, reduced levels of income particularly among the lower classes of the population, and a retarding or total cessation, in some cases, in normal expansion and growth. The Government of Guatemala, suffering extraordinary expenses at a time when the national treasury was found to be looted by the departing regime, has not been able to count fully on even normal sources of revenue to cope with the new burdens of reconstruction. Emergency loans to the Government may be obtained, on a limited basis, from internal banking sources; but as the Government is unwilling (for domestic political reasons of considerable importance) to look for private foreign loans through usual banking channels, it has become apparent that some form of foreign aid is indispensable to meet the pressing need for renewed economic activity and restoration of confidence.

The interest of our Government in a favorable solution of this problem has been expressed publicly by the Secretary of State on June 30, 1954,[2] and reiterated by President Eisenhower on August 16, 1954. The rebuilding of the Guatemalan economy, as a bulwark against the return of Communist domination of that country, is a very important objective of our foreign policy.

Within the last two weeks, a representative[3] of the International Bank for Reconstruction and Development visited Guatemala for the purpose of estimating present needs on which that institution can assist. On his return earlier this week, we were informed by President

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[1] Drafted by Mr. Leddy.

[2] Reference is to the Secretary's address over radio and television on June 30, 1954; for text, see Department of State *Bulletin*, July 12, 1954, pp. 43–45.

[3] Enrique Lopez Herrarte.

Black[4] that this representative recommended against any loans to Guatemala at this time.[5] Likewise, during the present week, it has been indicated to this Department that the policy of the Export Import Bank is not in favor of the kind of loan which is now needed by Guatemala. Accordingly, it would appear that neither the International Bank nor the Export Import Bank can now be looked to as sources for emergency economic or financial assistance to Guatemala at this time.

Meanwhile, our Embassy at Guatemala City has reported that the Guatemalan economy stands in urgent need of strengthening through the initiation of public works programs which will absorb a large portion of the many thousands now unemployed, and restore confidence by demonstrating the willingness of the United States to support the regime. The Embassy has pointed out that time is a precious commodity in the present urgent need, and has specifically recommended that a loan of ten million dollars be obtained from the Export Import Bank for purposes of road construction and other public works. Your attention is drawn to Embassy cable No. 247, dated September 7, 1954,[6] copy of which was distributed to the Foreign Operations Administration. In Washington, the Embassy of Guatemala has on September 20, 1954, submitted a formal note [7] to this Department requesting that the sum of ten million dollars be made available to the Government of Guatemala, in order to pull the country's economy out of the state of partial paralysis which has developed as a result of Communist depredations and mismanagement.

In the present circumstances, it is the considered judgment of the Department of State that our policy objectives in Guatemala require a rapid injection of new funds into the Guatemalan economy, and that this could best be accomplished by a specific grant for public works in the fields of housing, road construction and sanitation and other development purposes. These projects will, in the main, fall within the purview of the Foreign Operations Administration, and could properly receive its supervision and guidance. The amount deemed necessary, during the present fiscal year, is estimated at five million dollars. The allocation and distribution of such funds should remain under control of representatives of the United States Government by requiring that release be made solely on the joint signature of the Country Director of FOA and the American Ambassador.

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[4] Eugene R. Black, President, International Bank for Reconstruction and Development.

[5] In a memorandum of conversation which took place at the Department of State between Assistant Secretary of State for Economic Affairs Waugh, Acting Assistant Secretary of State for Inter-American Affairs Woodward, Special Assistant in the Office of Financial and Development Policy Robinson, Mr. Black, Burke Knapp, and Mr. Lopez Herrarte of the IBRD, drafted by Director of the Office of Middle American Affairs Newbegin, dated Sept. 20, 1954, not printed, Mr. Lopez Herrarte is recorded as having stated that there was no present need for commercial loans in Guatemala, that the financial plans of the government were insufficiently definite and too far removed from any operation that would result in a bankable loan, and that loans would be unjustified from the standpoint of the unstable political and constitutional situation in the country (814.10/9–2054).

[6] Not printed (814.10/9–754).

[7] Reference is to Guatemalan Embassy note no. 1302, dated Sept. 17, 1954, not printed (814.10/9–1754).

Such aid to the Government of Guatemala should not encourage other Latin American Governments to feel they should receive similar assistance. The special needs of Guatemala are generally recognized by other Governments as well as our own, and the public assurance of aid to Guatemala, given by the President and the Secretary of State, has been generally accepted by other governments in Latin America as a recognition on our part of the peculiar and dangerous conditions which followed upon the overthrow of the pro-Communist regime. It is not anticipated that the action recommended will cause ill feeling among other Latin American Governments or precipitate requests by them for equal treatment.

May I therefore request that you give urgent consideration to the feasibility of making available to Guatemala the sum of five million dollars for public works in the fields of housing, road construction, and sanitation and other development purposes and that designated officers of your Agency confer with officers of the Department at the earliest possible moment to achieve this purpose.[8]

Sincerely, **WALTER B. SMITH**

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[8] On Oct. 5, 1954, Mr. Stassen, Ambassador Armour, who was in Washington for consultations at the Department of State, and Mr. Fisher discussed the subject of emergency FOA aid for Guatemala at the Department of State. In a memorandum of that conversation, by Mr. Fisher, dated Oct. 6, Mr. Stassen is reported to have stated his agreement that in general Latin America had been "sadly neglected" by the United States, that in the specific case of Guatemala "he would do what he could to resolve the problem", and that "one of the factors involved was that the President's emergency fund, contrary to what many believed, was not a separate unallocated sum, but merely an authority to transfer funds among existing allocations." (814.00 TA/10–554)

814.00 TA/10–1654

The Acting Director of the Foreign Operations Administration (FitzGerald) to the Secretary of State

CONFIDENTIAL WASHINGTON, October 16, 1954.

DEAR MR. SECRETARY: This is in response to the letter of September 30, from Honorable Walter B. Smith, then Acting Secretary of State, proposing a $5,000,000 grant for Guatemala.[1]

The Foreign Operations Administration is fully aware of the United States policy of supporting the new non-communist government in Guatemala by improving the economic conditions in that country. Already we have (1) greatly increased the Guatemalan technical assistance budget from $190,000 to $1,300,000, to be used primarily in the basic fields of agricultural extension and research, public health and sanitation, and education, and to provide industrial, economic and financial advisors on a short-term basis upon request by the Guatemalan Government, (2) made an economic development grant of $500,000, to be matched by the Government of Guatemala, for the Roosevelt Hospital, which will put into operation two units (pediatrics, obstetrics and general services) of that hospital.

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[1] *Supra.*

Finally, we are prepared to make available modest additional funds on a grant basis for projects designed to help shore up the more vulnerable areas of the economy and to provide some immediate relief to the unemployment problem. We are not, however, in a position to provide Guatemala with a grant in the magnitude of $5,000,000 because of other high priority requirements for our limited funds and since it is not clear that sound projects have been or can be developed for the prompt use of this amount. While we will, in any event, have to use the authority granted the President in the Mutual Security Act of 1954[2] to transfer funds into the Latin American area, such transfer must be kept to the irreducible minimum. We believe, therefore, that we can carry out the foreign policy objectives of the United States in Guatemala by providing at this time for a grant of $1,000,000 and thereafter keeping the situation under continuous review.

While we realize that the Department of State has the primary responsibility for deciding whether a grant of $5,000,000 to Guatemala would have had any adverse effect on our relations with other Central American Republics, we should like to express our view, for such value as it may be to you, that the adverse effects would have been very considerable.[3]

As for the uses to which a grant of $1,000,000 would be put, we will request the United States Operations Mission Director in Guatemala[4] to develop a proposed operating plan with representatives of the Guatemalan Government which would emphasize (1) immediate "impact" projects having the primary purpose of putting unemployed to work on sound, though probably small, public works projects, and other developmental activities, and (2) the preparation of detailed plans for sound bankable economic development projects for submission to the International Bank for Reconstruction and Development or the Export-Import Bank. We would use our good offices in assisting Guatemala in presenting such projects to the banks for their consideration.

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[2] For text of the Mutual Security Act of 1954 (Public Law 665), approved Aug. 26, 1954, see 68 Stat. 832.

[3] In a memorandum to Mr. Waugh, dated Oct. 15, 1954, Director of the Office of Financial and Development Policy Corbett, stated in part the following: "At staff level in FOA there is apparently a feeling that a grant to Guatemala would encourage similar requests for other American Republics, particularly those in Central America." (714.5 MSP/10–1554)

[4] Edward J. Martin.

We understand that the Guatemalan Government has recently appointed a Coordinator of Technical Cooperation, which should facilitate the development of the most constructive proposals for the use of the proposed grant.

We are prepared promptly to advise the Guatemalan Government of an allotment of $1,000,000 on a grant basis, and will time such advice so as to permit the Department to obtain the maximum political advantage therefrom.

We also will have available shortly a suggested draft of a broad agreement covering the general terms and conditions of such a grant, which if you find it satisfactory, we would hope you could negotiate as soon as possible with the Guatemalan Government so that the United States Operations Mission can develop operating agreements promptly.

It is our understanding that the Operations Coordinating Board, at its meeting on October 6, approved a grant to Guatemala at this time of $1,000,000 and the use thereof for the operating programs indicated above.

Sincerely yours, D. A. FITZGERALD

814.10/10–2254: Telegram

The Ambassador in Guatemala (Armour) to the Department of State

CONFIDENTIAL GUATEMALA CITY, October 22, 1954—4 p. m.

332. Joint State–FOA message. President Castillo informed me yesterday he attaches highest priority completion and improvement south coastal highway and suggested Guatemala could provide one for each two dollars granted by US. On basis this new approach and in light following considerations, recommend reconsideration 5 million grant (Department telegram 324 October 21):[1]

(1) As a result our identification in Guatemalan official and public mind with liberation movement and statements by US officials concerning aid there is general expectation large-scale grant as witness Monzon's memorandum[2] requesting some 280 millions. We have suc-

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[1] No telegram fitting this description was found in Department of State files. The reference may be to telegram 276, dated Oct. 20, 1954, which reported that FOA was not in a position to provide Guatemala with a grant of $5 million because of fund limitations and no clear indication of progress toward developing sound projects. It would, however, consider a possible grant of $1 million and keep it under continuous review. (814.00 TA/10–1954)

[2] Not identified.

ceeded in reducing requests from 280 to 10. We believe we can cut 10 to 5 without bad effect. But we cannot go all the way to 1 without serious risk disillusionment and addition another element instability in already difficult and complex situation.

(2) Grant need not be regarded as precedent. Roosevelt Hospital and Inter-American Highway are continuation old programs and are not peculiar Guatemala. Aid on basis Guatemala matching funds can be said be extension same program designed maintain equality treatment by making up for years when Guatemala received no aid because Communists.

(3) There is real need. Money could be used kill several birds one stone—help restore confidence economy, alleviate unemployment and help build roads now virtually impassable on Pacific Coast agricultural region over which between 60 to 80 percent of wealth produced in country must move.

(4) Guatemala is doing its part. New one-time tax imposed October 19 designed supply $6.2 million is stiff medicine especially at time of falling coffee prices. Furthermore, Castillo sincerely desires put economic house in order as witness request for financial advisor and disposition discuss with us in advance petroleum and other major economic policies.

(5) Policy of little or no aid may well diminish Embassy's influence on negotiations for new petroleum law, new contract United Fruit and adjustment differences re electric company, Grace Lines and Pan Air. Success in obtaining satisfactory oil law might alone yield tax revenues to US far in excess of 5 millions in issue.

(6) Failure supply adequate grant may result in no aid in view Guatemala's long tradition no foreign loans. It will certainly postpone aid for estimated minimum one year required make detailed justifications and conclude negotiations with lending institutions. Next 12 months are critical ones.

(7) We disagree sound projects cannot be developed quickly. World Bank assigns high priority south coastal highway, page 203, its detailed report.[3] Johnson Drake Piper, 86 Trinity Place, New York, did considerable work south coastal roads 1949–50 and estimates cost resurfacing 52 kilometers Guatemala City to Escuintla at half million. This central artery very bad condition and cost-saving it will be higher if not repaired soon. Same company estimates cost repair completion 113 kilometers Popaya to Retalhuleu to Talisman and 32 kilometers Retalhuleu to Champerico at 8.5 millions with estimated dollar costs including 1 million asphalt and fuel, 1.2 million steel bridge work, 1.1

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[3] Reference is to *The Economic Development of Guatemala: Report of a Mission sponsored by the International Bank for Reconstruction and Development in collaboration with the Government of Guatemala* (Washington, 1951).

million culvert pipe, reinforcing steel, tracts, spare and replacement parts for Guatemalan road building equipment. Estimates Guatemalan Highway Department higher with neither figure including cost connection highway with Salvador also desired by President. This American company offers commence work within 30 days on basis cost plus 5½ percent with appropriate incentive clauses. Regardless whether this or other agency or company used it should not be difficult with competent FOA or Bureau Public Roads supervision assure efficient use. Completion detailed justification serve basis bids might take month. Furthermore, in unlikely event unable wisely spend entire sum this year carry over small excess into next year as in case other countries should present no serious problem.

(8) Time of essence. We have too large a stake in this government to delay meaningful aid.[4]

ARMOUR

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[4] In a memorandum of telephone conversation between Ambassador Armour, Counselor of Embassy Mann, and Assistant Secretary Holland, dated Oct. 25, 1954, Mr. Holland is reported as having stated that the FOA had agreed to increase the total amount of aid to Guatemala from $2.8 million to $5 million, that the increase "had been obtained just on muscle", and that "the disposition to do what was necessary was deep and reliable here and, if we pushed it the right way, whatever had to be done could be done." (814.00 TA/10–2554) Information in Department of State files indicates that the additional $2,200,000 was to be made up of $1,700,000 transferred to Guatemala from the general technical cooperation account for Latin America and $500,000 from the development aid account for Bolivia (Memorandum to Under Secretary Murphy, by Special Assistant to the Secretary Nolting, Oct. 25, 1954, not printed, 814.00/10–2554).

714.56/10–2754

The Secretary of State to the Secretary of Defense (Wilson)[1]

SECRET [WASHINGTON,] October 27, 1954.

DEAR MR. SECRETARY: Arrangements were made in July of this year between the United States and the new Government of Guatemala under which that government became eligible to purchase military equipment from this government.[2] The Guatemalan Government has taken action which has removed the objection that the United States had to Guatemala's reservation to the Inter-American Treaty of Reciprocal Assistance and it now appears that Guatemala will become a party to that Treaty in the near future.[3] It is also expected that Guatemala will soon approve the defense plans of the Inter-American Defense Board. As a further means of strengthening Guatemala's military relations with the United States and the other American Republics, I recommend that early consideration be given to developing a hemisphere defense role for Guatemala as a first step in the direction of establishing the eligibility of Guatemala for grant military assistance under the provisions of Section 105 of the Mutual Security Act of 1954.

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[1] Drafted by Robert M. Sayre of the Office of Regional American Affairs.

[2] Reference is to the agreement effected by an exchange of notes at Guatemala City, dated July 27 and 30, 1954; see the editorial note, p. 1217.

[3] Guatemala's ratification of the Rio Treaty was deposited, with a reservation, on Apr. 6, 1955.

The present Government of Guatemala, which came to power by ousting a communist controlled government, is cooperating fully with the United States and it is in the interest of the United States that this government be supported. Action has already been taken to provide economic assistance to Guatemala and further measures of economic cooperation are under consideration. These measures should assist in maintaining popular support of the present government and help to stabilize the economic situation in that country, but they make no direct contribution to winning and maintaining the support of the Guatemalan military establishment. which probably will assert the determining influence in any political crisis in Guatemala. Although a military assistance agreement with Guatemala would have the purpose of assisting that country to develop a unit, or units, of its armed forces for hemisphere defense missions, provision of assistance under such an agreement would have the additional result of helping to modernize the Guatemalan military establishment. It is believed that a bilateral agreement with the Guatemalan Government would therefore have considerable appeal to the Guatemalan military and the conclusion of an agreement would be a major step in the direction of assuring continued Guatemalan military support of the present Government. The ability of the present Government to obtain assistance would be the more important because of the failure of the previous regime to obtain military equipment from us and would serve to strengthen the Government's prestige with the Guatemalan Army and thus enhance its ability to maintain internal order.

In view of the unsettled situation in Guatemala it is, quite apart from support of the present Government, important to maintain the friendship and cooperation of the Guatemalan Army because it is, in the final analysis, in the best position to determine the successor government and its orientation. I think it would be a grave error on our part not to recognize that fact and to do everything possible to orient the Guatemalan military toward the United States and secure its firm support for our policy of assuring that communism does not again acquire any influence in the Guatemalan Government.

Because of the special nature of Guatemala's case, I consider it of great importance that we be in a position to offer the Guatemalan Government a bilateral military assistance agreement as soon as that

Government completes ratification of the Inter-American Treaty of Reciprocal Assistance. That should occur within the next sixty days. I therefore urge that prompt consideration be given to developing a defense role for Guatemala and to making available the necessary funds during this fiscal year and fiscal year 1956 to initiate and carry out a suitable military assistance program in Guatemala.

Sincerely yours, JOHN FOSTER DULLES

714.5 MSP/11-2454

The Secretary of Defense (Wilson) to the Secretary of State

SECRET WASHINGTON, November 24, 1954.

DEAR MR. SECRETARY: I refer to your letter of 27 October 1954,[1] with regard to a possible military assistance program to Guatemala. You urge prompt consideration be given to developing a defense role for Guatemala and to making funds available to initiate and carry out a suitable military assistance program for that country.

You are aware, of course, that because of the limited MDA funds available for Latin America, a military assistance program for Guatemala can be carried out only at the expense of other programs world-wide. You will appreciate that the cumulative effect of supporting numerous new programs in Latin America, by diversion of the limited MDA Program funds, is of much greater significance than would be indicated by the relatively small amount of funds required for individual country programs in the area. In the case of Guatemala, such diversion of funds at this time can be justified primarily by political considerations only.

Before the Department of Defense can develop a proper defense role and force bases for Guatemala, it will be necessary to make a military survey of that country in order to examine defense requirements, status of equipment and troops, and ability of the country to support military forces. Such a military survey is necessary to prevent recurrence of the hastily implemented program for Honduras, in which there was considerable duplication of equipment and in which there has been criticism from the U.S. Ambassador as to the type of unit supported. It is realized that conduct of the survey might make it difficult to meet your timetable for presentation of a bilateral military assistance agreement to the government of Guatemala. However, dispatch of a survey team before presentation of a bilateral agreement might provide some psychological advantage and, in any event, will provide a basis for development of a sounder program for Guatemala than would otherwise be possible.

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[1] *Supra.*

It is requested that the Department of State obtain political clearance for the conduct of a military survey of Guatemala. Concurrently, the Department of Defense will make preparation for prompt dispatch of a military survey team, as well as subsidiary actions required before negotiation of the necessary bilateral agreements with Guatemala can take place.

It is further requested that your Department be prepared to initiate action to obtain the required Presidential determination as to the eligibility of Guatemala for grant military assistance. In the meantime, direct contact may be established with the Chairman, US Delegation, Inter-American Defense Board,[2] who will be responsible for the military survey of Guatemala, and for carrying out the necessary bilateral negotiations for the Department of Defense.[3]

Sincerely yours,

C. E. WILSON

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[2] Lt. Gen. Howard A. Craig, USAF.

[3] In a letter to Secretary of Defense Wilson, dated Dec. 2, 1954, not printed, Deputy Under Secretary Murphy stated that the military survey requested by Secretary Wilson had already been completed, and that upon receipt of a letter from the Department of Defense indicating that defense plans required the participation of Guatemala, the Department of State would seek the necessary Presidential determination as to Guatemala's eligibility for grant military assistance (714.5 MSP/11-2454).

714.56/11-2654

The Secretary of State to the Director of the Foreign Operations Administration (Stassen)[1]

SECRET [WASHINGTON,] November 26, 1954.

DEAR MR. STASSEN: Our Ambassador to Guatemala has urgently recommended, for important political reasons, that certain military equipment be made available to the Government of Guatemala and delivered before December 22, 1954. The equipment is desired for use in connection with a military demonstration to be held in Guatemala City on December 22, 1954, for the purpose of encouraging anti-communist elements and deterring communist conspiracy in Guatemala by a public show of Guatemalan military strength. As indicated in the enclosed memorandum of November 23, 1954,[2] from the Department of the Army, General Matthew B. Ridgway has informed the Guatemalan Ambassador, in Washington, that the Department of the Army will prepare the desired equipment for shipment without delay on a vessel scheduled to depart from New Orleans on December 10 and to arrive in Puerto Barrios on December 16. The Guatemalan Ambassador, however, has informed General Ridgway and representatives of the State Department that his Government cannot at the present time make full payment for the equipment in cash but would be prepared to pay for it on deferred payment terms under the provisions of Section 106, Public Law 665, approved August 26, 1954.

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[1] Drafted by Special Assistant for Inter-American Military Affairs Spencer and Mr. Fisher.

[2] Not attached to source text.

The Department of State believes that a public demonstration by Guatemalan military forces in possession of adequate equipment recently delivered by the United States would emphasize to communist elements in the Central American area the firm intention and the capability of the present Guatemalan Government to resist communist subversion and conspiracy with armed force and the determination of the United States to support Guatemala in resisting communism. This would conform with our national policy objective of eliminating the threat of communism from Guatemala and the Central American area. The Department of State therefore strongly recommends that Guatemala be permitted to procure the desired equipment on deferred payment terms and that the transaction be authorized in sufficient time to assure delivery of the equipment in Guatemala before December 22.[3]

Sincerely yours,

For the Secretary of State
Frederick E. Nolting, Jr.
Special Assistant to the Secretary
for Mutual Security Affairs

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[3] In a letter to Mr. Stassen, dated Nov. 29, 1954, supplementing this letter, Mr. Nolting, for the Secretary of State, stated in part that in spite of the current shortage of cash resources in Guatemala the Department of State believed that the country's economy was "basically sound and that the long term fiscal outlook of the Government may be considered as reasonably optimistic." (714.5 MSP/11–2954)

Information in Department of State files indicates that by Dec. 3, 1954, the Department approved for sale to Guatemala on deferred credit terms military equipment, including vehicles, parts, and small arms ammunition, valued at approximately $400,000 (714.5 MSP/12–354), and that most of this equipment arrived in Guatemala prior to Dec. 22. Additional pertinent documentation is in files 714.5 MSP and 714.56.

Editorial Note

On December 13, 1954, the United States and Guatemala signed at Washington an agreement providing for development assistance to Guatemala, which entered into force on the same date. For text of the agreement, see 5 UST (pt. 3) 2972, or TIAS No. 3155. For additional information, see Department of State press release 715, dated December 13, 1954, in the Department of State *Bulletin*, December 27, 1954, page 985.

MID files, lot 58 D 18

Memorandum by John W. Fisher of the Office of Middle American Affairs[1]

CONFIDENTIAL

BALANCE SHEET—DECEMBER 31, 1954

GUATEMALA

Guatemala Wants:

1. Faster implementation of economic and technical assistance promised by U.S.
2. Grant of 12,000 metric tons of corn to relieve shortage.
3. Cash assistance to get Inter-American Highway work accelerated pending reimbursement from U.S. funds.
4. Reimbursement for services of Elmer Batzell, petroleum adviser contracted by Guatemalan Government.
5. Renegotiation of U.S.-Guatemalan Trade Agreement.
6. A Bilateral Military Assistance Agreement with the U.S.

United States Wants:

1. Acceptance of sound advice in fiscal and development policy.
2. Coordination of technical advice received from U.S. and that received from Venezuela (petroleum), IBRD and IMF (financial and economic development), and any other non-U.S. sources.
3. Encouragement by Guatemala of repatriation of its own private capital abroad.
4. Discussion of an Investment Guarantee Treaty with the U.S.
5. Conclusion of Air and Military Mission Agreements.

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[1] There is no indication of a drafting date on the source text.

HAITI

ECONOMIC AND MILITARY RELATIONS OF THE UNITED STATES AND HAITI[1]

838.20/6–3052

Memorandum by William B. Connett, Jr., of the Office of Middle American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)[2]

CONFIDENTIAL [WASHINGTON,] June 30, 1952.

Subject: SHADA

Reference: Embassy Port-au-Prince cable of June 28, 1952[3]

Organization

The *Société Haitiane-Américaine de Développement Agricole* (SHADA) is a bilateral agricultural development corporation, chartered under the laws of Haiti in 1941. Three of the six directors are required to be American citizens. At the time of organization the Eximbank extended a $5,000,000 line of credit[4] repayable over a ten year period. The Eximbank has control of a majority [of] Shada's stock and hence has the right to elect the officers of the corporation. The full amount of the loan is guaranteed by the Haitian Government. The Bank's approval is required for all projects. Mr. John MacQueen is now the General Manager, and the Eximbank is represented on Shada's board by Mr. Horace Darton.

Activities

Shada has been active principally in sisal, lumber, and rubber. During the war years primary attention was given to the development of cryptostegia rubber for war purposes.[5] This program was a failure. Since the war emphasis has been placed on sisal production. Lumber has also been important and a small hevea rubber production has continued.

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1454 ff.

[2] Addressed also to Director of the Office of Middle American Affairs Rubottom and Acting Officer in Charge of Caribbean Affairs Wellman.

[3] Apparent reference to telegram 215, in which the Embassy reported that President Magloire was "gravely concerned" over SHADA's inability to meet a loan payment due to the Export-Import Bank on June 15, 1952, and that he had authorized a full investigation of the matter (838.20/6–2852).

[4] Approved by the Export-Import Bank on May 1, 1941.

[5] For documentation on the initiation of the cryptostegia rubber program in 1942, see *Foreign Relations*, 1942, vol. VI, p. 460.

Financial Difficulties

Shada has not proved to be a self-liquidating project. Its failure consistently to show a profit has been variously ascribed to over-capitalization, the cryptostegia program, poor management, and waste. In 1951 the unpaid balance of the Eximbank loan, amounting to about $4,000,000, was funded under terms calling for amortization in 40 quarterly payments.

The repayment on the principal for fiscal 1951–52 was to be $100,000. Interest charges for the same year on the unpaid balance amounted to $189,726. The Shada budget for fiscal 1951–1952 estimated expenditures, including interest and payments on the note, at $2,068,173 and receipts at $2,117,550, as follows:

Sisal fiber	$1,430,000
Waste tow	284,200
Lumber	352,750
Hevea rubber	50,600
Total receipts	$2,117,550

The receipts from the sale of sisal, which is by far the greatest revenue producer, was estimated on the basis of a price of 22¢ per pound. However, our Embassy reports that the world price has now fallen to 15¢ which apparently accounts chiefly for Shada's inability to meet the June 15 payment of $25,000 on the note. In accordance with the loan agreement, the Haitian Government becomes liable as cosigner on default of the corporation.

Conclusions

The Shada project has stimulated a considerable amount of ill feeling among the Haitians. The cryptostegia program, in particular, irritated them because they believed it had been forced upon them and was not designed to further the general aims of Shada, namely, the furtherance of Haiti's general economic development. They have objected also to the manner in which the program has been administered, to its waste, to its cost, to the large number of Americans it has employed. They have tried to escape responsibility themselves by claiming the whole idea was thought up by Americans, and that Americans maintained control of the organization's policy thru the general manager and thru their control of the common stock. They say also that if the Haitian Government guarantees the loan, it should also determine policy. While there is some truth in all this, the fact remains that the Haitian Government entered into the agreement freely.

There can be no doubt that if the Haitian Government has to make good the loan it will generate further ill will. Perhaps more important, Shada's predicament may dampen enthusiasm for the Artibonite project which is similarly an agricultural development project financed by Eximbank credit.[6] It may also affect the Haitian Government's ability to pay for the Artibonite project whose estimated cost has just increased another 2.5 million.

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[6] On Dec. 29, 1948, the Export-Import Bank authorized a credit of $4 million to assist in financing the agricultural development of the Artibonite Valley in Haiti; in April 1951, the Bank increased this credit to $14 million.

838.20/7-252

Memorandum of Conversation, by the Chargé in Haiti (Folsom)[1]

CONFIDENTIAL PORT-AU-PRINCE, June 30, 1952.

Participants: Foreign Minister Etheart and Mr. Folsom

Subject: The SHADA Situation.

Minister for Foreign Affairs Etheart called me about 9:00 a. m., June 30, to request that I call on him at 10:00 a. m. I said I had an appointment at 10:00 a. m. with the President[2] but that I could see him at 11:30 a. m., which hour was agreed upon.

Upon my arrival, the Foreign Minister formally presented me with a copy of the report[3] on SHADA (I had returned the President's personal copy during my call on him). The Foreign Minister enlarged upon the situation, speaking of its serious consequences for Haiti, with which I stated my general agreement.

Taking up the conclusions of the report (Section VI), I said that I had received no instructions on the matter and could only give him my personal views. I said I doubted whether SHADA could pass to Haitian administration in view of the Agreements and Contracts, etc. of 1941, though I said it might be acceptable. I said I agreed with the second point on the need for economy and that the third and fourth points[4] hinged on the decision on the first point. I said that I doubted the wisdom of presenting the fifth point (i.e. cancellation of the $5,000,000 loan), as I believed it highly unlikely to be acceptable and as I believed further it would prejudice future Exim Bank loans.

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[1] Transmitted to the Department of State under cover of despatch 2, from Port-au-Prince, dated July 2, 1952, not printed (838.20/7-252).

[2] A memorandum of conversation between Chargé Folsom and President Magloire, dated June 30, 1952, was enclosed with despatch 2 of July 2.

[3] A copy of the referenced report, in French, containing the results of the investigation previously authorized by President Magloire, dated June 1952, was transmitted to the Department of State under cover of despatch 820, from Port-au-Prince, dated June 29, 1952, not printed (838.20/6-2952). No translation of the report was found in Department of State files.

[4] These were essentially as follows: (3) Assistance would be provided to Haiti under Point Four for the purpose of achieving a complete inventory of SHADA's operations and also for establishing a new development plan together with a new financial arrangement; (4) the Haitian Government would establish a new institution to succeed SHADA which would be under Haitian control and have the assistance of technical personnel provided in part by Point Four.

I then said that Haiti's history of actual payment of its foreign debt had been good since 1922, that interest and amortization had been paid according to schedule on the 1922 loan until 1938, when, by mutual agreement,[5] a reduced amortization schedule had been adopted and prolonged from year to year until final funding and extinguishment of the debt by the Internal Loan of 1947.[6] I noted also that payments of interest and amortization on the J. G. White Loan of 1938[7] had been met regularly and that the loan had now been paid off and, finally, that the SHADA loan had been serviced, the agreement of May 24, 1951, signed and payments under it met.

I said, however, that I wished to be frank—that the attitude of Haiti had not been as good as the record of performance. I pointed out that there had been grumbling and criticism of the repayment of the 1922 loan; that the J. G. White expenditures had been severely criticized when the time came to pay the loan back, and that now the same sort of criticism of SHADA was taking place. I said I did not recall the exact facts but that my impression was that on occasions in the past other requests had been made for cancellation or reduction of outstanding debts. I said any new request for cancellation, this time of the SHADA loan, would be viewed in this context and that it could not but react badly on future loan applications.

The Foreign Minister thanked me for my frankness and said he would bring this idea to the ears of the President.

I stated also that usually two tactics were open to a Government making demands: (1) to present a very large request and to recede from this, and (2) to make a reasonable approach allowing the facts to speak for themselves. I said in the present case I believed the SHADA situation should be examined carefully and fully without demands and the results of the investigation would suggest the proper solution. I emphasized, however, that I was in no way forcing my views which were completely informal and personal and that the Haitian Government should choose its own course of action and tactics. The Foreign Minister again thanked me for my frankness.

The Foreign Minister then reviewed briefly the four SHADA administrations along the same lines as the President had done on Saturday. He pointed out that the Export-Import Bank had the largest bloc of stock hence the larger vote, that while the Board of Directors was composed of three Haitians and three Americans, actually the Americans controlled SHADA since the American manager could vote to break any tie.

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[5] For documentation on this subject, see *Foreign Relations*, 1938, vol. v, pp. 573 ff.

[6] For documentation relating to this loan, see *ibid.*, 1947, vol. VIII, pp. 727 ff.

[7] Reference is to an Export-Import Bank loan of $5.5 million approved on June 18, 1938, to assist in financing public works projects in Haiti; the Haitian Government engaged the J. G. White Engineering Company to carry out the projects.

At this point I interrupted and asked if I might again be very frank and perhaps blunt. The Minister answered me he wished to have my views. I said that I wished to warn him against any emphasis on American domination. I admitted the facts as he outlined them, but said any linking of American domination charges with the present sad state of SHADA appeared to me to imply (1) that the American members of the Board had voted along national lines—an assertion I could not believe or accept as I believed them to be men of character and honesty who would vote on the basis of convictions as to what was best for Haiti, SHADA and the Export-Import Bank (2) that the American members were either incompetent or intellectually dishonest—both of these implications I rejected categorically. I said that I believed that the facts would demonstrate that Mr. MacQueen as manager had never been forced to cast his vote to break a tie vote (whether the division was mixed or along national lines). I added that if there had been any American domination or collusion between American Board members and the American management—a suggestion, which I rejected—the Haitian members had clearly been derelict in not forcing a tie vote on each issue of importance, thus forcing the manager to cast his vote and thus demonstrate such collusion, which then could have been brought to the attention of the proper authorities. I said I was confident the minutes of the meetings of the Board of Directors would show no such list of the votes along national lines. Thus, I said, I believed any discussion or emphasis on alleged American domination of SHADA could only arouse extreme resentment, could be interpreted as an allegation of American sabotage of SHADA, could be refuted as I had done and that in the refutation it would appear that the Haitian Board members had been derelict in their duty.

The Foreign Minister said he deeply appreciated my frank statement and admitted the correctness of my position. He said he would caution against any such approach and would recommend that the much safer approach would be that the first administration had been bad, the second two excellent or good and that the fourth is poor and discuss the subject on the merits of the case, basing any request for Haitian management on a record of 50 percent unsatisfactory performance (from the point of view of the Haitian Government) by American management and a desire to try Haitian management, who presumably would know the country and its problems better.

In closing the interview on the subject of SHADA, I said that I regretted the need to have been so frank and blunt, but that I felt the circumstances required it. The Foreign Minister stated that, on the contrary, he was very pleased at my frankness, denying that I had been blunt. He said he greatly appreciated my views, that he knew I am not only interested in protecting the interests of my Government but also that I am a friend of Haiti, and his friend and that I should speak frankly. He said he believed we could accomplish much more by complete honesty and frankness.

838.20/9–252

The Chargé in Haiti (Folsom) to the Department of State

CONFIDENTIAL PORT-AU-PRINCE, September 2, 1952.
No. 139

Subject: SHADA: Overall Comments on the Situation

[Here follows a list of despatches concerning the SHADA situation transmitted to the Department of State by Chargé Folsom between June 29 and August 29, 1952.]

Taken together, these despatches reveal the existence of an incredibly sad state of affairs. At present, I see no solution which will be satisfactory to all concerned. The Haitian Government seeks control of SHADA and to avoid financial loss. The Exim Bank seeks to safeguard its interests and to obtain repayment of some $4,000,000 outstanding on the loan to SHADA. The Department of State and the Embassy desire an equitable settlement, which will minimize Haitian bitterness and which will place the least strain on Haitian-American relations consistent with protection of American interests.

It appears to me that either the Exim Bank must face the loss of most of the $4,000,000 outstanding, or the Haitian Government will have to accept this loss. A moratorium on the debt appears to me as a possible means of easing over the situation, but I fear that in the long run the issue of loss will have to be faced. With this in mind, I should like to set forth my views on certain aspects of the situation, especially with regard to American responsibility and the possibilities of salvaging something from the ruins.

It will be recalled that the original concept of SHADA did not envisage plantation operations. Instead, as denoted by the corporation's name, it was designed to aid agricultural development in Haiti. While the record, at least here in the Embassy, is not clear as to why SHADA entered the field of sisal, it appears likely that it was done at American suggestion or insistence to relieve the fiber shortage existing during the war. If it was at American insistence that SHADA was diverted into plantation scale operations, this fact should be considered at this time and it should be recalled that this was not even entirely "development" since SHADA purchased the Liles plantation near St. Marc, an existing mature plantation.

Secondly, it should be recalled that the Cryptostegia program, while not a part of the regular SHADA program, absorbed much of the attention and energy of the SHADA management, which might better have been occupied with purely SHADA affairs. This costly failure also left SHADA with certain overhead which later became a drain on its resources. This program clearly was of American origin.

Thirdly, it cannot be denied that it was the American management which bought sisal plantations, which planted all the sisal at once and which in subsequent years (for various reasons) failed to cut out fields, replant, etc., in order to put the plantations in proper cycle. Mistakes were also made in other divisions: citronella was tried and abandoned and later Senator Dejoie carried out a sizable development in essential oils; a costly and completely useless cement logslide was built in the Pine Forest, etc., etc. In arguing with the Haitians, it can be said that the Haitian Government and its representatives on the Board of Directors should have controlled the management more carefully and that they bear a share of the blame for the failure of SHADA. While I have been successful in convincing the Haitians of the desirability of dropping almost completely the argument on allocation of responsibility; while I have been successful to a large degree in having this argumentative section deleted from the Haitian Commission's memorandum[1] to President Magloire; and while I have been almost blunt in refusing to accept any and all charges of American responsibility in discussions during the past three months, I would be delinquent in my duty to the Department, if I did not point out the very large share of responsibility resting on American shoulders. In addition, if one places blame upon the Haitians for the failures of their representatives on the Board of Directors, one must admit that an approximately equal amount of blame accrues to the representative of the Exim Bank. Furthermore, the Haitian argument that these representatives held and voted the largest block of stock, though shelved at present, does have validity.

The present situation of SHADA is so disastrous that it is inconceivable that it was not foreseen at least five years ago. In this respect I should like to draw to the Department's attention the statements made in 1945 in my Ph.D. thesis, at the bottom of page 407 and the top of page 408, as well as on page 457. In fact, it should have been obvious from the beginning that if all sisal fields were planted at once, they would all go out of production at approximately the same time. Just how the revised schedule of debt repayment could have been drawn up and signed in May, 1951, barely a year before the SHADA collapse is also inconceivable.

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[1] Not identified.

I should like to point out incidentally that the Embassy had not been kept informed of SHADA activities in recent years. The SHADA files from 1947 to 1952 are singularly bare. The Embassy received no prior notice of the present crisis from either SHADA itself or from the Exim Bank representative who was here in May. Now, of course, the Embassy is receiving full information on all phases of SHADA operations.

As I see it, SHADA operations may be conveniently divided into three parts. Foremost are the sisal operations followed by the forestry and rubber operations.

[Here follows discussion of SHADA's sisal, forestry, and rubber operations.]

The value of the lumber and rubber operations is small. The value of the sisal operations, at present at least, is theoretical and they probably would bring little or nothing if sold. If the entire SHADA were liquidated and sold, it probably would not bring more than $500,000 to $1,000,000. Debt outstanding totals about $4,000,000. It thus appears that there will be a loss of $3,000,000 to $3,500,000, if liquidation is the solution. On the other hand, the very poor outlook of the sisal operation renders any plan to continue operations dangerous, and service on the $4,000,000 outstanding of the loan constitutes one of the major obstacles. Legally, it appears that the Exim Bank can hold the Haitian Government to its guarantee of the loan.

In view of the high degree of responsibility accruing to the Bank through the management, its voting power, and its participation on the Board of Directors, it appears to me that to place the entire burden on the Haitian Government would be inequitable. Furthermore, Haitian-American relations will be embittered for some time if the Haitians are saddled with the entire loss.

It will be seen that I am not offering a solution. In part, that might be attained by a long moratorium or cancellation of the debt, though many problems would still exist. Rather, I am suggesting what should not be done. I might add that it is my impression[2] that, barring unforeseen developments, Haitian economy is due for a recession based on falling agricultural prices, restricted markets and decreasing revenues and that the budget cannot stand heavy additional charges at this time.

ROBERT S. FOLSOM

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[2] At this point in the source text appears the following handwritten marginal notation apparently by Mr. Connett: "Mine also."

838.20/10–952

Memorandum of Conversation, by William B. Connett, Jr., of the Office of Middle American Affairs

CONFIDENTIAL [WASHINGTON,] October 9, 1952

Subject: SHADA

Participants: Ambassador Jacques Leger, Haitian Embassy
Mr. Miller—ARA
Mr. Mann—ARA
Mr. Connett—MID

Ambassador Leger spoke of an impasse which has occurred between the Haitian negotiating committee on Shada, headed up by Finance Minister Dominique, and the Export-Import Bank.[1] Specifically, he said the Bank had proposed reducing the interest rate from 4 to 2 percent, extending the period of repayment of the indebtedness, and liquidating Shada. The Ambassador said this proposal was unacceptable to the Haitian Mission which wished to have the debt cancelled or substantially reduced. Consequently; Ambassador Leger said, the Mission was preparing to return to Haiti within a week or so.

Mr. Miller and Mr. Mann informed Ambassador Leger that the latter would pay Mr. Gaston a visit the following day to see if the State Department's good offices might have some effect in resolving the impasse.

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[1] Between late September and early November 1952, a mission representing the Haitian Government held a series of discussions with representatives of the Export-Import Bank at Washington for the purpose of resolving the SHADA problem.

838.20/10–1052

Memorandum of Conversation, by William B. Connett, Jr., of the Office of Middle American Affairs

CONFIDENTIAL [WASHINGTON,] October 10, 1952.

Subject: SHADA

Participants: Mr. Herbert Gaston, Export-Import Bank
Mr. Raymond Jones, Export-Import Bank
Mr. Horace Darton, Export-Import Bank
Mr. Bernard Bell, Export-Import Bank
Mr. Thomas Mann, ARA
Mr. W. B. Connett, Jr., ARA:MID

Mr. Gaston commenced the discussion by saying that the Bank would insist that the Shada indebtedness stand. He pointed out that this indebtedness was voluntarily contracted, that the loan agreement had been negotiated with the Bank by the Haitian Government and that the latter understood and took full responsibility at the time.

Furthermore, he added, Shada has contributed much to the Haitian economy in the form of salaries paid the laborers and the Haitian (as distinct from American) members of the Board, as well as in taxes paid into the Haitian treasury. He estimated that some $18,000,000 had been poured into the Haitian economy as a result of Shada's operations. Finally, he said the Haitians could not completely avoid responsibility for Shada's mismanagement since it was evident they could have exercised more supervision over its operations had they really wanted to.

Mr. Gaston outlined a possible solution along the following lines:

1. Reduction of the interest rate on the outstanding balance from 4 to 2 percent, the amount the Bank paid for money from the U.S. Treasury.
2. The conclusion of a contract with DPA for the purchase of Shada's sisal production (Mr. Gaston said DPA had indicated it would be willing to sign a contract for about 13¾¢ CIF New York, though he did not know for what duration).
3. A new Eximbank loan to provide working capital.
4. Transfer of control of Shada to the Haitian Government.
5. The assignment of an expert or experts to make a survey of the Shada properties, and to reconstitute them along more economical lines.

Mr. Gaston suggested, for an example, that it might be advisable (*a*) to liquidate the Cape Haitian division, processing all the growing sisal leaves regardless of age; (*b*) to eliminate the unsuitable land from the St. Marc division so that the remainder, which he estimated at about 5,000 acres, could be consolidated into an economical unit; and (*c*) to continue the forestry and rubber operations, if the survey indicated it was feasible, under a revised policy.

Mr. Mann explained the heavy financial burdens and prospects of reduced revenues faced by the Haitian economy and pointed out the traditional Haitian dependence on U.S. advice and assistance. He said these factors, together with past errors in the management of Shada and the political repercussions the Shada problem might have in Haiti, should make it advisable for the Bank to make every reasonable concession to accommodate the Haitian point of view. He asked Mr. Gaston if there was not some way in which the Bank could do a little better on the indebtedness. Mr. Gaston agreed the Bank might be able to improve on the 2 percent interst rate, and said the important thing, from the Bank's point of view, was that the Haitians recognize the indebtedness and continue to make some sort of payments on principal. In this connection, he suggested that the Bank might be willing to accept something in the neighborhood of $25,000 a quarter for principal repayment, with a nominal interest rate, or perhaps a moratorium on interest payments for a few years. Mr. Mann then suggested the possibility of TCA assistance in surveying the Shada properties and in helping the Haitians manage it, pointing out that the use of IIAA technicians would save the Haitians some money in salaries. In conclusion, Mr. Mann agreed to discuss the matter further with TCA and Ambassador Léger.

838.20/10–1352

Memorandum of Conversation, by William B. Connett, Jr., of the Office of Middle American Affairs[1]

CONFIDENTIAL [WASHINGTON,] October 13, 1952.

Subject: SHADA

Participants: Ambassador Jacques Léger, Haitian Embassy
Mr. Rene Colimon, Minister-Counselor, Haitian Embassy
Mr. Alexandre Dominique, Haitian Finance Minister
Mr. Georges Cadet, Shada Director
Mr. Arthur Herres, Shada Director
Mr. Thomas C. Mann, ARA
Mr. Jack Neal, MID
Mr. Harvey R. Wellman, MID
Mr. W. B. Connett, Jr., MID

In the course of an informal cocktail party in honor of SHADA, Mr. Mann referred to Ambassador Léger's oral request for advice on how to proceed in replying to Mr. Gaston's offer to reduce the interest on the Shada loan to 2 per cent. Ambassador Léger at that time indicated that Mr. Dominique and the other members of the Shada Mission were disappointed with the offer and that he, the Ambassador, considered that an effort should be made to obtain a better offer from the Bank if this were possible, in view of what he described as the precarious political and economic situation in his country.

Mr. Mann said that he had spoken with Mr. Gaston who had indicated that he woud be willing to discuss the matter further with the Haitians to see whether something could be done. Mr. Mann suggested that Ambassador Léger and Mr. Dominique request an appointment with Mr. Gaston to discuss the terms under which a loan could be amortized. He suggested that in this conversation the Haitians address themselves to the question of finding a constructive solution to the problem rather than to a reiteration of their opinions concerning responsibility for past events.

Mr. Mann stated that the Bank and the Department were in agreement that a cancellation of the principal indebtedness should not be considered and that the problem was to find a formula consistent with this determination.

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[1] Drafted by Mr. Connett, with the assistance of Mr. Mann.

Mr. Mann further stated that the problem of how Haiti would repay this loan was of course a problem for the Haitians themselves to decide, and that both the Bank and the Department hesitated even to offer any suggestions in view of the possibility that the Haitian Government might at some later date contend that the suggestions were tantamount to duress. He said, however, that if the Haitians wished to discuss this question with the Department it was his personal and unofficial opinion that something along the following lines might be worked out:

1. A formula agreeable to the Bank and to the Haitian Government concerning the amortization of the principal debt.
2. A reorganization of Shada under which the Export-Import Bank would be relieved of any responsibility for future operations and where the control would be in the hands of the Haitian Government.
3. Abandonment of that part of the sisal operations which would be determined by competent experts to be uneconomic and concentration on that part of Shada's operations which might be found by disinterested experts to have good possibilities.
4. Seek TCA assistance in employing top managerial and technical personnel so as to reduce overhead expenses of Shada.[2]

Mr. Mann said that if the Haitian Government should proceed along these lines and see to it that Shada is well-managed it might be possible to pay the debt to the Export-Import Bank without further drains on the Haitian treasury. Mr. Mann emphasized again that these were personal thoughts and very tentative, and that the Department was not prepared to make any commitments at this time.

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[2] In a memorandum of conversation between Messrs. Dominique, Léger, Cadet, and Deputy Assistant Secretary Mann, by Mr. Connett, dated Oct. 30, 1952, Finance Minister Dominique was reported to have stated that IIAA seemed favorably disposed to consider requests for technical personnel to assist SHADA (838.20/10–3052).

Editorial Note

In late November 1952, the Haitian Government and the Export-Import Bank reached a settlement with respect to SHADA. The terms of the settlement included, *inter alia*, provisions easing Haiti's repayment obligations on the SHADA loan, the transfer of SHADA stock held by the Bank to the Haitian Government, and Haitian control and management of SHADA (despatch 374, from Port-au-Prince, dated November 28, 1952, 838.20/11–2852). The terms were incorporated into a letter from Mr. Gaston to Ambassador Léger, dated November 26, 1952, no copy of which was found in Department of State files.

738.00/12–152

Memorandum of Conversation, by William B. Connett, Jr. of the Office of Middle American Affairs

CONFIDENTIAL [WASHINGTON,] December 1, 1952.

Subject: Request for U.S. Government Assistance by Ex-President Estimé of Haiti

Participants: Dumarsais Estimé, Ex-President of Haiti*
MID—Mr. Wellman
—Mr. Connett

Mr. Estimé dwelt at some length on what he considered the abuses of the present administration in Haiti. He contrasted this with his own administration which he said rested on popular support while the present military regime was imposed on the Haitian people against its will. He said he had often been unjustly accused of advocating black supremacy when in fact he had appointed many mulattoes to political office, including the present Ambassador to Washington, Jacques Léger, whom he had assigned as Ambassador to Buenos Aires.

Estimé claimed that he still had the support of the Haitian people and that it would be to the interest of the United States to have him return to power to re-establish a healthy democracy in place of an oppressive dictatorship. He said he had discussed the matter with Ambassador Dunn[1] in Paris and had come to the United States in the hope that he could gain the support of the U.S. Government. He remarked that he had been studying the current foreign policy of the United States and had observed that we had seen fit to intervene from time to time in the affairs of other states, such as Egypt and Greece. "With the support of the United States", he said, "I could be back in Haiti in a matter of hours."

Mr. Wellman and Mr. Connett pointed out that it was not the policy of the United States to intervene in the affairs of other states, that we were very definitely committed to a policy of non-intervention in Latin America, and that we could therefore not offer him political support. It was pointed out that our unwillingness to do so did not imply any judgment of him as an individual or of the Administration he formerly headed up. M. Estimé accepted this explanation though he was obviously disappointed.

M. Estimé then asked for our assistance in certain personal problems. He said that it was untrue that he had absconded with millions of dollars from the Haitian Treasury and that, on the contrary, he had very little means. He had recently been refused a loan, he said, by the Chase National Bank because the only collateral he could post consisted of property located in Haiti which had been impounded by the Haitian Government. His wife, he said, had been unable to induce the Haitian Government to permit her mother and brother-in-law to leave Haiti. His two sons, who are in France, have been unable to obtain passports from the Haitian Ambassador in Paris. He himself has been unable to obtain an apartment in New York. Finally, he said, the Haitian Government has had him under surveillance in the U.S.

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* M. Estimé was accompanied by a Mr. Harris, probably Mr. Hugo Harris, an American citizen recently expelled from Haiti for political reasons. Mr. Harris waited in an ante-room during the conversation with Estimé. [Footnote in the source text.]

[1] James Clement Dunn.

Mr. Wellman and Mr. Connett told M. Estimé that most of the matters in which he sought our assistance would involve representations to the Haitian Government on his behalf by the U.S. Government in areas in which the former had exclusive jurisdiction. M. Estimé was told that while we sympathized with his difficulties, we could not properly make official representations on his behalf. It was pointed out, however, that we would be happy to extend him every courtesy possible in matters within our jurisdiction, such as U.S. visas, etc. M. Estimé again seemed disappointed, but accepted the explanation with amicable resignation.

838.00 TA/10–752: Airgram

The Secretary of State to the Embassy in Haiti[1]

CONFIDENTIAL WASHINGTON, December 24, 1952.

A–86. Reference Embassy Despatch Totec 17 October 7,[2] concerning proposal of Raoul Aglion, UN Resident Representative, for US–UN participation in preparing a plan for economic development of Haiti.[3] Department concurs with view of Embassy as to difficulties which such a proposal would present. In particular, the Department believes it inadvisable for this Government to prepare, or participate with a third party in the preparation of, an over-all economic development plan for a foreign government.

If a Latin American Government wishes to receive from the U.S. advice with respect to economic development plans, IIAA would prefer to make such advice available through the special assignment of a general economic consultant rather than through the TCA Mission generally. In the case of Haiti, consideration might be given to the furnishing of an economic consultant if the Haitian Government wished such an expert. However, since the furnishing of such advice is within the terms of reference of Aglion, the Department would wish to be sure that both the Haitian Government and Aglion were perfectly clear as to the whole situation, in order that there might be no possibility of having Aglion's role unwittingly superseded by a TCA expert. It will also be recalled that the report made in 1949[4] by the UN Mission of Technical Assistance to Haiti has already provided a basis for Haitian economic development planning. Department is, moreover, by no means certain that Haiti is ready for a more comprehensive blueprint for economic and social evolution along lines suggested by Aglion. Also not sure that Haitians are presently in a position to put such a plan into effect if it were adopted, since it might represent too large a project for the government to handle; or political changes in the government might later invalidate the work. Furthermore, the present 5-year $40 million development plan of the Haitian Government seems to be designed to accomplish many of the economic objectives set forth in the Aglion outline. On balance, it would appear preferable to recognize the limitations of the situation in Haiti, and to focus attention for the time being on individual integrated projects like the Artibonite.

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[1] Drafted by Philip M. Burnett of the Technical Cooperation Administration and Charles C. Hauch of the Institute of Inter-American Affairs; cleared with the Offices of Regional American Affairs and UN Economic and Social Affairs.

[2] Not printed (838.00 TA/10–752).

[3] A translation of a draft outline of the referenced plan as prepared by Mr. Aglion was transmitted to the Department of State under cover of despatch Totec 17.

On the other hand, the fact that the UN is thinking of forward planning of technical assistance is much to be commended, since they have all too often been criticized for acting on the basis of *ad hoc* requests as received by individual UN agencies from various governments, including Haiti. The U.S. would also be much interested in the preparation of any plan for technical assistance which might eventually be adopted, since such a plan would necessarily affect the content of TCA operations in Haiti for a good many years, and would also have a considerable effect upon the coordination of UN and U.S. activities. As a matter of general policy, we have consistently urged that coordination in the field should rise above the mere mechanics of avoiding duplication to a cooperative and intelligent integration of efforts and resources for the purpose of providing maximum benefit to the country concerned.

In the light of these considerations, you may wish to discuss this matter further with Aglion, indicating to him fairly candidly the consideration and interests which we have in this matter. It is suggested that you might wish to make two main points with Aglion, somewhat along the following lines:

1. If the UN after further consideration, believes it desirable to pursue its interest in Haitian economic development, also already evidenced by its report and recommendations of 1949, through the

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[4] The report was published as *Mission to Haiti, Report of the United Nations Mission of Technical Assistance to the Republic of Haiti* (New York, 1949).

preparation of a comprehensive development plan along the lines proposed by Aglion, U.S. would think it probably desirable not to become associated as a co-sponsor with such a plan at the present time, for the reasons stated above. However, the U.S. would naturally be much interested in the outcome, and would also be glad to assist in specific ways as appropriate, such as furnishing data, etc., so long as this did not involve any "sponsor" relationship.

2. U.S. representatives in Haiti, however, would be definitely willing to discuss with UN representatives and the Haitian Government the establishment of a list of priority technical assistance activities for immediate consideration and implementation—this representing something less comprehensive, yet more specific, than an over-all economic development plan. In the preparation of such priority activities, the U.S. would think it useful to have consideration given at the same time to the question of which activities might be undertaken respectively by the U.S. and UN.

A joint understanding along the lines indicated in point 2 above, between U.S. and UN representatives in Haiti and the Haitian Government, would be warmly welcomed in Washington and very likely in New York as well, as a real contribution in considering the planning of further technical assistance activities in Haiti.

We are sending a copy of this reply and the reference despatch to USUN (New York) in order that they may convey the substance of this matter confidentially and informally to the United Nations Technical Assistance Administration.

ACHESON

738.5 MSP/12-3152

The Chargé in Haiti (Folsom) to the Department of State[1]

SECRET PORT-AU-PRINCE, December 31, 1952.
No. 424

Ref: Department's Circular Airgram of November 24, 1952, 3:45 p.m.[2] (Control No. 2139)

Subject: Status of Programs Under the Mutual Security Act of 1951[3]—Haiti—Quarter Ended December 31, 1952.

Summary

The present report, as the first in this series, is much more lengthy than will be the case with succeeding reports since this report is considered as basic and will serve as a point of reference in the future.

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[1] Drafted by Chargé Folsom.

[2] The referenced airgram requests Embassies to submit quarterly reports concerning the status of programs under the Mutual Security Act of 1951 (700.5 MSP/11-2452).

[3] Public Law 165, approved Oct. 10, 1951; for text, see 65 Stat. 373.

Implementation of the basic foreign policy objectives of the United States in Haiti is carried out through the Embassy. The IIAA-TCA with its agricultural and health missions, its training program, and its supervision of a rubber experimental station, the naval and air force training missions, a mapping mission and miscellaneous other special assistance missions provide the instruments by which U.S. aid is brought to Haiti. Of these, only the IIAA-TCA operations come under the Mutual Security Program, though all of them contribute to raising living standards, improved production or health, better administration or the imparting of technical knowledge. Indirectly, all contribute to internal stability and hemispheric cooperation and solidarity. The very backwardness of the country, the vast field offered for economic, social and technical development, imposes the major obstacle to attainment of spectacular results. Other complications inherent in the social structure and the form of government also provide inhibiting factors to development of private investment. Certain foreign influences are not conducive to improvement of relations with the United States, but at present it should be noted that there is no communist influence. There are no obstacles placed in the way of administration of the aid programs, and, on the contrary, the Haitian Government seeks and does all possible to facilitate aid. Compliance with commitments appears to be complete and Haitian contribution to the aid programs appears to be consonant with the nation's resources.

I. *U.S. Foreign Policy Objectives*

The objectives of United States foreign policy as applied to the Republic of Haiti seek to obtain Haitian support of efforts to promote world-wide and inter-American peace and prosperity, to encourage developments in Haitian national life and internal affairs which will make Haiti a more stable and effective democracy, to raise living standards and to improve economic conditions in Haiti, to encourage maintenance of internal order and the ability of Haiti to contribute to western hemispheric defense and to improve relations and promote mutual understanding between Haiti and its neighbors.

II. *Instruments of Application of the Foreign Policy Objectives*

The instruments for application of the foregoing foreign policy objectives of the United States in Haiti are as follows:

1. The Embassy of the United States
2. The IIAA-TCA operating through

(*a*) The Agricultural and Food Production Mission (ratio of contributions: Haiti-3, USA-1)

(*b*) The Health and Sanitation Mission (ratio of contributions: Haiti-3, USA-1) (*c*) The Training Program (scholarships, fellowships, etc.)

(*d*) The Marfranc Rubber Experimental Station (under IIAA–TCA supervision but run by the United States Department of Agriculture which provides almost all of its financing with the Haitian Government providing land and certain support)

(*e*) The proposed Artibonite Valley irrigation and agricultural development program (will be carried out with IIAA–TCA assistance and financed jointly by the Haitian Government and the Export-Import Bank.).

3. Other

(*a*) The U.S. Naval Mission—a training mission

(*b*) The U.S. Air Force Mission—a training mission

(*c*) The Inter-American Geodetic Survey Project—a mapping program.

(*d*) Miscellaneous American assistance through the IIAA–TCA, United Nations, Organization of American States, and United States Departments and Agencies for special advice on special subjects.

III. *Progress in Achieving Foreign Policy Objectives*

The agricultural and food productions programs of the IIAA–TCA have already achieved progress in increasing food production and the proposed Artibonite irrigation, drainage and agricultural program can be counted on to do even more in the future. The health and sanitation program has improved health and living conditions. Both programs have aided in the development of an underdeveloped nation and indirectly have promoted internal stability.

The rubber experimental station is an excellent combination of economic development, production of an essential material for collective defense and inter-American cooperation.

The Naval and Air missions provide excellent examples of constructive technical aid, the former in the field of coast guard training with special emphasis on aids to navigation and the latter in development and training of a small but very competent military air force which also acts as a domestic commercial line. The IAGS project, while designed to provide the United States with mapping data, also makes these available to Haiti and provides a training service for Haitians in this field.

The various specialists working to improve Haitian economy, administration, education, health, etc., whether acting under the IIAA–TCA or other U.S. agencies or whether working for some international organization are, in fact, directly or indirectly furthering United States aims in aiding the development of Haiti.

Indirectly all these programs serve to make for internal order and to promote development of a more stable and effective democracy. Some of them promote inter-American understanding and the Naval and Air Missions contribute in a small way to strengthening of the Caribbean defense system.

IV. *Major Obstacles and Difficulties*

The attainment of United States foreign policy objectives is hampered by various factors.

The very backwardness of the country, its lack of natural resources, its growing population, its illiteracy, extremely bad health conditions and the like, all make the task of economic and social development an intricate and difficult task.

The existence of repressive measures, graft, corruption and past efforts of presidents to extend their terms of office beyond the legal limits, as well as a relatively rigid social system, the existence of an underlying conflict between the mulatto elite and the black masses, complicated by the recent emergence of a new power elite, including both blacks and mulattoes, all have served to hamper development of a stable and effective democracy.

A history of government interference with and insistence upon participation in profitable business enterprise has not been encouraging to foreign investment and this year, for example, it resulted in withdrawal of the Standard Fruit and Steamship Company from Haiti. Despite this fact, foreign (with U.S. dominant) investment in manufacturing, business and commerce exceeds that of Haitians.

Relations with the Dominican Republic, never good, though somewhat better at present, constitute a factor of distrust in hemispheric cooperation and cause Haiti to be very jealous of all military and financial assistance provided its neighbor.

Historic and cultural ties with France also hamper at times the full attainment of U.S. objectives in Haiti.

The efforts of Argentine representatives, especially in the fields of propaganda and labor, while in most part ineffective and insignificant, are worthy of note as an anti-American influence.

Finally, it should be noted, negatively, that there is no communist influence in Haiti at present.

V. *Specific Obstacles and Difficulties Affecting U.S. Aid*

Strictly speaking, there are no obstacles or difficulties affecting the administration of U.S. aid to Haiti.

On the contrary, the nearness of the United States, the Marine Occupation, and years of financial and economic tutelage by the United States have predisposed the Haitians not only to accept, but to seek and expect U.S. assistance. Each Government has sought to obtain its full share of aid. Succeeding regimes have criticized not only the previous administrations but also the U.S. aid in some cases, but this has in no way deterred them from seeking more.

VI. *Replies to Specific Questions*

a. Haiti's Adherence to Commitments Made in the Course of MSP Aid Negotiations

There is no evidence of any failure to provide complete compliance with and adherence to commitments. Each Haitian contribution has been forthcoming on schedule. This is not to say that the Government would not like to reduce the 3–1 ratio of financial contributions, but it adheres to the schedule.

b. Political Developments Affecting Prospects of Adherence to a Progress towards JCS Force Targets, Including Action on Defense Budgets

The total military force of Haiti numbers about 5,000 men and officers. It is an internal security or police force in concept. The air force and coast guard units are small and the most effective unit is the Palace Guard of some 500 men. With this small force, Haiti cannot be expected to play any significant role in JCS force targets. Maintenance of internal security and assistance of minor importance in protection of the Windward Passage in time of emergency is all that can be expected. Financial resources do not permit maintenance of an important military establishment. In this respect, it may be noted that the national budget in 1952–53 is about $28,000,000 (US) of which the armed forces receive 18 per cent (this is an increase of about 23 per cent in the amount of money allocated in 1951–52.

c. Major Economic Developments Which Might Appreciably Affect Aid Levels

Declining agricultural prices and restricting dollar markets are affecting most of the major export crops of Haiti with the exception of coffee. Unfortunately, the coffee crop for this year is forecast at below normal levels. This will adversely affect Government revenues, which are based primarily on customs duties on imports and exports. Haiti has had a balanced budget for some forty-odd years and falling revenues undoubtedly will restrict the ability of the Government to undertake certain of its planned public works. This may cause it to seek more outside aid in the coming year.

d. Defense Alliances and Other Developments in International Relations Affecting Security

None.

e. Effect of MSP Aid in Furthering Internal Political Stability and Security

Discussed in III above.

f. General Progress in Activation of Planned Forces

The Haitian General Staff has not obtained the complete agreement of its own Government for the creation of a mobile task force for use as an instrument of U. N. policy (under the Uniting for Peace Resolution[4]), nor has it received any encouragement from the United States on this score.

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[4] Reference is to Resolution 377(V) of the General Assembly, approved Nov. 3, 1950; for text, see United Nations, *Official Records of the General Assembly, Fifth Session, Supplement No. 20* (A/1775), pp. 10–12.

g. General Effect on Progress towards Force Goals of Deliveries of U.S.-Furnished End-Items

No military items furnished.

h. General Ability of Haiti's Defense Establishment to Utilize Military Aid

See VI–*b*.

i. Major Developments with Respect to Defense Production Plans and Programs

Not applicable (unless applied to the commercial production of sisal, which may be expected to decline for the next few years).

j. Major Trends with Respect to Economic Development Plans and Programs

The Haitian Government is presently engaged in implementation of its $40,000,000 Five Year Plan for the economic development of Haiti with emphasis on construction and repair of schools, construction of hospitals and dispensaries and other public health and sanitation projects, agricultural development including irrigation, drainage, stock breeding, farm demonstrations, grain storage, etc., road construction, and urban development. Expenditures to date have been included in the regular national budget and are set at $5,000,000 for 1952–53.

Also included in the national budget is provision for implementation of the Artibonite Valley agricultural development program with an allocation of $1,500,000 for 1952–53 to be spent in coordination with the Exim Bank loan of $14,000,000.

The Haitian budget for 1952–53 also sets aside $255,000 for health and sanitation and $200,000 for agricultural development, although the Haitian Government has agreed to provide $317,000 to match the U.S. contribution of $105,000. In addition to these local contributions to the IIAA–TCA programs the Haitian Government has provided $196,000 as the local contribution to a World Health Organization anti-yaws campaign.

In addition to these budgetary commitments, the Haitian Government is seeking to extend its road system, to rehabilitate its telephone system, and has under study plans for construction of an international airport, harbor improvements, construction of two new workers' cities, extensive municipal improvements in Cap-Haitien and Gonaives, and numerous other projects in more or less advanced stages of planning.

Finally, in 1949 Haiti adopted legislation designed to promote industrial development, providing in the law for special customs and tax privileges for so-called "new industries".

k. Economic and Social Effects of Point IV Programs

Total expenditures of the Point IV Program in Haiti in the fiscal year 1952–53 may be estimated at $750,000. While a substantial sum, expenditures of this size spread over a people numbering some 3,000,000 with a national income of perhaps $150,000,000 and a national budget of $28,000,000 cannot be expected to have spectacular economic and social effects. The Point IV Program is providing a very useful service in irrigation extension, in demonstration farms, stock and poultry breeding and the like and will be instrumental in development of some 60 to 70,000 acres of land in the Artibonite Valley. The health and sanitation part of the Program is gradually reducing the incidence of yaws, hookworm, malaria and other diseases prevalent in the country. Over a longer period the effects of these two programs will vitally affect the lives of thousands of Haitians. The rubber experimental farm is providing high grade seed and clones for rubber development (as well as in fields of health, education, administration, sphere.

The capacity of Haiti to receive aid in almost all fields of economic development (as well as in fields of health, education, administration, etc.) is limited more by the amount of aid available than by capacity to absorb such aid. Its capacity to utilize effectively aid provided, has increased in recent years and with few exceptions has been adequate. Careful screening of expanded aid by the Embassy, the local IIAA–TCA office, and the control offices in Washington is, I believe, sufficient guarantee that aid will not be extended into fields which might prove unproductive or in amounts beyond the local capacity to absorb.

I. Attitude of the Haitian Government and Public towards U.S. Aid Programs

Public and Government attitude is very favorable and cooperative with reference to the Point IV Program, and indeed toward all aid from abroad. The United States is expected to supply most of the aid. It may be noted that in the past, U.S. programs to aid Haiti have been welcome, but in some cases have been criticized following conclusion of the project; this has been especially true of projects which have resulted in increase in the public debt or liabilities of the State. It will probably not be the case with pay-as-you-go programs such as the agricultural and health and sanitation programs. It may arise in the case of the Artibonite project should that undertaking not be a demonstrable success after a reasonable period of years.

Finally, in line with the Mutual Security Program objectives, a treaty of friendship, commerce and navigation is now under consideration and has reached the discussion stage between the Haitian Government and representatives of the United States Embassy.[5]

I believe that the contents of this report provide the assurances requested to show that Haiti has taken decisive steps towards self-help and mutual cooperation, thus justifying continued aid (compliance with Section 511(*c*) of the Mutual Security Act of 1951).

ROBERT S. FOLSOM

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[5] The referenced discussions were suspended in mid-1953; pertinent documents are in file 611.384 for 1952 and 1953.

611.38/5–453

The Chargé in Haiti (Folsom) to the Department of State

CONFIDENTIAL PORT-AU-PRINCE, May 4, 1953.

No. 696

Subject: Haitian Problems as Expressed by Officials to Assistant Secretary of State John M. Cabot.[1]

Summary

In conversations with members of the Haitian Cabinet and President Magloire, lasting from 9:00 a. m. to 1:00 p. m. on April 9, 1953, the problems confronting Haiti were reviewed for the benefit of Assistant Secretary of State for Inter-American Affairs, John M. Cabot. (Mr. Cabot was accompanied by Chargé d'Affaires a.i. Robert S. Folsom at all the conversations and by Colonel Valentine Smith, Army Attaché of the Embassy at the military conversations.) Certain of the Cabinet Ministers presented memoranda containing their views either at the time of the conversations or subsequently. (These are attached,[2] in translation, as enclosures. It is understood that another set[3] in French is being given to Mr. Cabot by Haitian Ambassador Leger.)

In brief, certain factors, as follows, emerged as strongly influencing present thinking of the Haitian Government:

1. Signature of a bilateral military assistance pact with the Dominican Republic, plus other such pacts, the desire of Haiti to improve its defensive force and its hope to contribute to UN Military needs.
2. Adverse economic developments, including a smaller coffee crop, collapse of sisal export prices, drop in sugar and cotton prices and restricting markets for export crops, all of which led to smaller Government revenues at a time when economic development is in progress, raising Government expenditures and creating financial problems.
3. The collapse of SHADA and the role of American management and the Exim Bank therein, plus numerous instances of difficulties with the Exim Bank in initiating work on the Artibonite Valley Project.

Consideration of these factors resulted in Haitian proposal of the following requests to the United States Government:

1. Negotiation of a bilateral military pact

   a) to enable Haiti to equip a combat team of 5–10,000 men for national defense requirements and capable of overseas duty, should need arise under UN commitments.

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[1] Assistant Secretary Cabot visited a number of Latin American countries during the period Apr. 6–May 3, 1953; pertinent documents are in file 110.15 CA.

[2] None printed.

[3] Not found in Department of State files.

b) to enable Haiti to construct the military portions of a new international airport.

c) to lay ground-work for acquisition of other equipment as deemed necessary in the future such as arms, ammunition, planes, etc.

2. Considerations of the possibility of a short-term bank loan of $3,000,000 to be guaranteed by the Haitian Government to permit it to continue its program of economic development:

a) in rehabilitation of the banana industry,

b) in rehabilitation of SHADA,

c) in strengthening the Institute of Agricultural and Industrial Credit, and

d) in the development of tourism.

The planned financial and banking legislation reform was cited as a special consideration.

3. Assistance of the State Department in facilitating relationships with the Export-Import Bank relative:

a) to signature of the proposed IIAA–ODVA contract on the former's role in the Artibonite Valley (with particular regard to apparent Bank insistence on retaining management control) and

b) to settlement of day-to-day problems of working relationships.

4. Reconsideration by the Exim Bank of the question of hydroelectric power for the Artibonite Valley Project.

5. Consideration of revision of the existing rates of U.S. and Haitian contributions to the technical assistance programs in the future (present rates—U.S. 1 per Haitian 3).

6. U.S. aid in securing for Haiti a larger sugar quota on the international market.

7. Sympathetic consideration for a larger quota for Haitian sugar in the U.S. market and lower tariffs, and

8. Various specific requests for aid.

Mr. Cabot throughout the conversations emphasized that he was not present to negotiate or to make any commitments, but rather to listen to the exposé of Haitian problems. He pointed out that Haiti is protected from aggression under the Rio Pact,[4] in discussing the proposed bilateral military agreement, and also stressed the existing heavy financial commitments of the U.S. in regard to military aid to other countries. He expressed great interest in Haitian difficulties in obtaining U.S. arms, ammunition and replacement parts.

With regard to the economic request, Mr. Cabot expressed interest, while cautioning that revision in the sugar situation was unlikely and that a loan would require careful consideration, admitting, however, that the financial and banking reform might provide a special favorable aspect. He stressed the role of private investment in economic development and the need to create a favorable climate for such investment.

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[4] Reference is to the Inter-American Treaty of Reciprocal Assistance (Rio Treaty or Rio Pact), opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948; for text, see 62 Stat. (pt. 2) 1681, or Department of State Treaties and Other International Acts Series (TIAS) No. 1838.

I. —*Military Phase*

Discussions opened at 9:00 a.m. in the office of the Secretary of State for Foreign Affairs. In addition to the Foreign Minister, also present were the Secretary of State for National Defense, Interior and Justice, Ducasse Jumelle, and the Chief of Staff of the Haitian Army, General Antoine Levelt, Assistant Secretary of State John M. Cabot and Robert S. Folsom, Chargé d'Affaires a.i. of the American Embassy. (Colonel Valentine Smith, Army Attaché of the American Embassy was also present at the military talks.)

After a few brief preliminary remarks of welcome to Assistant Secretary Cabot by the Foreign Minister and the Minister of National Defense, General Levelt was asked to speak for the Haitian Government.

General Levelt stated that the Haitian Army is a combination of army and police force in which the officers are primarily military and only secondarily police, while the reverse holds true for much of the enlisted force, which is detailed for constabulary duty throughout the provinces. He emphasized the American character of the Army, pointing out that it uses U.S. manuals, has the U.S. table on organization and that training of officers and men is by U.S. methods.

He pointed out that with a population of 3,000,000 Haiti has available some 300,000 for military service (i.e. enough for 30 divisions). He asserted that manpower and training presented no problem for increase in the army, and that the sole limiting factor is equipment.

Turning to the Haitian Air Force, he noted that the pilots, and other officers and men, were trained to handle and service many types of planes and that, if equipment (planes) were available, the Haitian Air Force would be useful for submarine patrol in case of war. He suggested that the Air Force could patrol the Windward Passage (Haiti–Cuba) and the passage between Haiti and Jamaica.

He suggested the need for a bilateral military pact with the United States with one of its objectives the creation of a combat team of 5,000 men or perhaps a light division of 10,000 men capable of service abroad. In this connection, he emphasized that U.S. aid should be given as Haiti reaches certain attainments.

He said that the present airport is rapidly becoming obsolete. He noted that a study had been made by the U.S. Air Force Mission in cooperation with the staff of General Kiel,[5] which placed the cost of a new field (excluding cost of the land) at from five to six million dollars. He said the project had also been discussed with Juan Trippe, President of P.A.A., recently and that the latter had suggested that the new landing strip be made in three sections, the center part to be civilian, with a cost of about $2,500,000 (exclusive of buildings) for which P.A.A. would seek an Exim Bank loan. Mr. Trippe had also suggested that P.A.A. would share in the cost of buildings. General Levelt said he sought aid from the U.S. in connection with the military sections of the field ($2,500,000–$3,500,000).

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[5] Brig. Gen. Emil C. Kiel, Commander, Caribbean Air Command, Canal Zone.

Mr. Cabot replied, emphasizing the existing U.S. commitments to aid Haiti in case of attack and the already heavy financial commitments of the U.S., but said he was glad to have the Haitian views on the subject of a bilateral treaty.

General Levelt then emphasized the psychological importance of a bilateral pact, especially in view of the pact just negotiated with the Dominican Republic.

He then set forth certain specific minor problems. First, he emphasized the difficulties (actually the impossibility) experienced in 1947 in seeking to obtain parts for Springfield rifles even on a cash basis.* He noted that, as a result, the Haitian Army had been forced to turn to Belgium for Mauser guns. He pointed out that the case of Haiti was by no means unique; that other Latin American nations had the same problem and that the effort at standardization of equipment has been materially damaged. He noted also that Haiti has had offers from three different European Governments, each of which has offered to sell U.S. aircraft, Springfield rifles and other arms and equipment.

Enclosure No. 1, a memorandum prepared by the Department of National Defense, summarizes the views of General Levelt and the Ministry.

II. —*Financial and Economic Phase*

Following conclusion of the military phase of the discussion, there was a brief recess while the Minister of Defense, General Levelt and Colonel Smith withdrew and the other members of the Cabinet took their places at the round table.

a) *Minister of Finance and National Economy*, Lucien Hibbert, was called upon for the first exposé. Following an outline of Haiti's economy and its problems in general, he noted that Haiti had signed the Investment Guarantee Agreement.[6] He also spoke briefly of land reform, noting the need for regrouping of small holdings rather than for breaking up of large holdings.

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*General Levelt admitted later that he knew that it was not the policy of the U.S. to give arms to unstable Governments, referring to the period of the overthrow of President Lescot and the early days of the Estimé régime. Since 1947 no effort has been made to acquire ammunition in the United States. [Footnote in the source text.]

Noting that Haiti is a one crop country with coffee supplying more than 50 per cent of exports, that sisal prices had collapsed and that the banana industry is nearly dead, he discussed the consequent losses in foreign exchange and Government revenues and suggested a short-term (four year) credit of $3,000,000 to give the Government more elasticity in carrying out its program of economic development during a period in which it was proposed to reorganize financial and banking legislation.

Mr. Cabot interjected that the Exim Bank usually does not consider credits to cover budgetary deficits, but that, in view of the proposed banking and financial reforms, the Bank might consider the case as a special exception.

The Foreign Minister noted at this point that the budgetary deficit was not the fault of the Government, but of outside forces (world prices, etc.).

The Finance Minister then said that he had not intended to imply the need for a credit to cover a budgetary deficit, but rather to enable the Government to aid economic development in four specific areas: (1) the banana industry, (2) the sisal industry (SHADA), (3) the Institute of Industrial and Agricultural Credit, and (4) tourism, through roads, hotels, beaches, etc. He added that he contemplated a bank-to-bank (Exim Bank to Banque Nationale de la République d'Haiti) short-term loan guaranteed by the Haitian Government. He asserted that such a loan in the amount of $3,000,000 would remove all development projects from the budget leaving revenues free for normal functional expenditures.

He suggested that, after all financial and banking legislation had been implemented and after the economy was in good shape, Haiti might seek a long-term loan to consolidate its short-term loans.

Mr. Cabot cautioned that usual interest on long-term loans is about 5%, as against 3.5% on short-term loans.

Enclosure No. 2 summarizes very succinctly the views of the Minister of Finance.

b) Director of ODVA, Major Alcide Duviella, stated that good progress was being made on the Artibonite Project, except as regards the IIAA–ODVA Agreement, in which it appeared that the Exim Bank did not agree with either the IIAA or the ODVA as to who should name the Director of the project.

He emphasized the need for development of hydroelectric power and asked that the Exim Bank reconsider its position on this subject.

Mr. Folsom stated that to be economic, the Port-au-Prince market must be opened for the sale of hydroelectric power, and that to obtain this market a *modus vivendi* had to be worked out with the Compagnie d'Eclairage Electrique des Villes de Port-au-Prince et du Cap-Haitien. He emphasized that, under the present contract, the Company could not amortize even existing equipment and would not be able to undertake additional installations to connect up with the hydroelectric power, unless some arrangement were reached. He asserted his belief that, with a reasonable arrangement, the Company would be amenable to purchase of hydroelectric power. (This led to some discussion and expression of diverse opinions.) The Foreign Minister stated his belief that a reasonable arrangement could be made.

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[6] Reference is to the exchange of notes signed at Washington, Mar. 13 and Apr. 2, 1953, and entered into force on the latter date, constituting an Agreement relating to guaranties authorized by Section III(*b*)(3) of the Economic Cooperation Act of 1948, as amended; for text of the notes, see TIAS No. 2818, or *United States Treaties and Other International Agreements* (UST), vol. 4 (pt. 2), p. 1546.

The Economic Cooperation Act of 1948 is Title I of the Foreign Assistance Act of 1948 (Public Law 472), approved Apr. 3, 1948; for text of Title I, see 62 Stat. 137.

Enclosure No. 3 summarizes the views of the ODVA. It should be noted that the last sentence of the final paragraph is in error, as Mr. Folsom did not concede any Haitian point of view, but rather stressed the need for the Haitian Government to reach a satisfactory arrangement with the local light and power company.

c) *The Minister of Public Health and Labor*, Roger Dorsinville, suggested consideration of revision in the proportion of U.S. and Haitian contributions to the Point IV Health and Sanitation program (now $1.00 by the U.S. for each $3.00 contributed by Haiti). He also spoke in general terms of projects he had in mind.

Enclosure No. 4 summarizes the views of the Ministry of Public Health.

d) *The Minister of Agriculture and Commerce*, Daniel Heurtelou, asked for consideration for revision of the international sugar quota assigned to Haiti and, more particularly, for an increase in the U.S. quota assigned for Haitian sugar and more favorable treatment in the U.S. markets.

Mr. Cabot drew attention to the Sugar Act[7] and stated any change in the U.S. market situation would be obtained only with great difficulty.

Enclosure No. 5 summarizes the views of the Ministry of Commerce.

(At this point, no time remained for continuation of the conference, which was adjourned accordingly to permit Mr. Cabot to keep his appointment with the President.)

Enclosures Nos. 6, 7 and 8 are respectively summaries of the views of the Ministries of Agriculture, National Education and Public Works. The latter is rather an amazing list of requirements.

III.—*Conference with President Magloire.*

At 12:15 p. m. Mr. Cabot and Mr. Folsom called on President Paul E. Magloire, who received them in company with Foreign Minister Liautaud and Mr. Daniel Theard, Chief of Protocol.

The President, after welcoming Mr. Cabot, summed up the views already expressed by his Cabinet officers at the conference earlier in the morning, stressing:—

1) his interest in and desire for a bilateral military pact with the United States;

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[7] Apparent reference to the Sugar Act of 1948 (Public Law 388), approved Aug. 8, 1947; for text, see 61 Stat. 922.

2) the need for a better working relationship with the Exim Bank on the Artibonite Project (pointing out the disastrous results of mixed responsibility in the case of SHADA and placing almost all the blame for its failure on the first and last American managements and the Americans on the Board of Directors, specifically Mr. Darton of the Exim Bank. He stressed that he was anxious to avoid any such fiasco in the Artibonite Valley);

3) the desirability of revision in the ratios of U.S.-Haitian contributions to the technical assistance programs (towards a reverse in the ratios);

4) the need for an international airport and his hope for U.S. assistance; and

5) his hope that Haitian sugar might receive more favorable treatment in the United States.

In stressing the need for U.S. economic assistance, he readily admitted that previous Haitian administrations were to blame for the collapse of the banana industry, though, as noted above, he placed blame on Americans for part of Haiti's present problems with the sisal industry.

It is a regret that transmission of this despatch has been delayed. Copies of most of the enclosed memoranda were not received from the Ministry for Foreign Affairs until April 30, 1953.

ROBERT S. FOLSOM

738.5 MSP/5-2153

Memorandum by George O. Spencer of the Office of Regional American Affairs to the Assistant Secretary of State for Inter-American Affairs (Cabot)[1]

SECRET [WASHINGTON,] May 21, 1953.

Subject: Inclusion of Haiti in the Grant-Aid Military Assistance Program.

As you are aware, the Haitian Ambassador last week presented us with a note[2] requesting that we include Haiti in the grant-aid military assistance program. Several months ago he asked us why Haiti had been excluded and we replied in writing that in choosing countries, the U.S. had to take into consideration the limited U.S. funds available for the program and the military capabilities of individual Latin American countries for making a hemisphere defense contribution. In short, we gave him a polite negative answer. Meanwhile, the Haitian military has been making strong pleas to the Pentagon for a place in the program. The last I heard was that the Pentagon intended to refer the Haitians to the State Department, which it apparently has done.

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[1] Addressed also to Deputy Assistant Secretary Mann and Director of the Office of Middle American Affairs Rubottom.

[2] Not printed.

I am told by my contacts in the Pentagon that the Navy is the only Service Department having an interest in a Haitian program. However, the other two Services have vetoed the idea of even a Navy program for Haiti each time the question has arisen. I believe, therefore, that we stand virtually no chance of obtaining Pentagon approval short of an appeal by the Under Secretary to the Joint Chiefs during his meeting with them tomorrow.

According to the majority opinion in the Pentagon, the present program has one sole purpose, namely, to obtain from Latin American countries a commitment to prepare military units of a type which would be of practical military assistance to U.S. armed forces in defending the Caribbean area in time of war. The Pentagon view is that countries like Haiti plainly are not capable of preparing such units, even with some U.S. assistance. In short, they haven't enough trained soldiers for such units or they haven't the money to spend on material and facilities they would need in addition to the equipment we would provide in the program.

I believe that important political considerations require that we attempt to over-ride the Pentagon thesis on political grounds, in the case of Nicaragua, El Salvador and Honduras. While it would be politically desirable to have Haiti in the program, I believe that our reasons are not strong enough to make a persuasive case to the Pentagon. I therefore suggest that we not ask the Under Secretary to urge the Joint Chiefs to include Haiti in the program during his discussions tomorrow, but that we have him devote his efforts to persuading the Pentagon to concur in our proposal regarding Nicaragua, Honduras and El Salvador—the countries that count most in our plan to deal an effective blow against communism in Guatemala. In the meanwhile, if you concur, I plan to submit the Haitian request formally to the Pentagon at the lower levels, so that we may have something in writing from the Pentagon on which to base a reply to the Haitian Ambassador.[3]

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[3] The source text bears handwritten notations by Mr. Cabot and Mr. Mann indicating their agreement with this proposal.

838.2614/10–953

Memorandum of Conversation, by William B. Connett, Jr., of the Office of Middle American Affairs

CONFIDENTIAL [WASHINGTON,] October 9, 1953.

Subject: Artibonite Project

Participants: M. Lucien Hibbert, Haitian Minister of Finance
Jacques Leger, Haitian Ambassador
General Glen Edgar Edgerton, Managing Director Export-Import Bank
Mr. Phil Atterberry—ED
Mr. Connett—MID

The interview with General Edgerton was arranged directly by M. Hibbert who requested at the last minute that the interview be private. However, he did not object to the presence of representatives of the Department of State whom he had earlier asked to attend. The interview lasted for over two hours, during which time M. Hibbert did most of the talking. Early in the interview M. Hibbert requested from General Edgerton that he be permitted to call in a stenographer, Madam Nicolas, whom he had brought with him from the Haitian Embassy. General Edgerton said he had no objection but remarked that he would not feel quite as free to talk as he would if he were not speaking for the record. The General also requested that he be provided with a copy of the stenographic notes. M. Hibbert agreed to make them available both to the Eximbank and the Department of State.*

Mr. Hibbert's exposition, which lasted almost an hour and a half, roughly paralleled what he had told Mr. Folsom in Haiti prior to his departure, as reported in Port-au-Prince despatch No. 157 of September 24, 1953.[1] His presentation was divided into three principal parts: part one was designed to show the poor condition of Haiti's finances; part two consisted of a general review of the Shada situation; and part three was a recommendation that the Artibonite project be reviewed with a view to ascertaining whether its scope might be reduced and its priorities rescheduled so as to assure the technical soundness of the project and to lessen the financial burden on Haiti. M. Hibbert's remarks are summarized briefly below:

Part one: Haitian finances are directly influenced by the volume and value of a very few agricultural exports, principally coffee and sisal. Because of a smaller coffee crop and reduced prices for sisal and other export commodities, the Haitian economy has suffered a recession from which it is not likely to recover for some years. Two years ago, when the expanded Artibonite project was agreed upon, prospects were much brighter that the Haitian economy could stand the strain.

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*When these notes are received by the Department they will be distributed to the same addressees as this memorandum. [Footnote in the source text.]

[1] Not printed (838.2614/9–2453).

The Eximbank has asked the ODVA where the Haitian Government will obtain the funds to pay for the Artibonite project. The ODVA, because this matter was not within its competence, referred it to M. Hibbert, the Secretary of Finance. The immediate problem involved raising the amount of 2.6 million dollars to cover the Haitian contribution to the Artibonite for this (fiscal ?) year. The long range problem involved the question of where Haiti, faced with a downward curve in the business cycle, would find these large sums in future years. M. Hibbert could not see how he could raise 2.6 million dollars this year, particularly since his Department had an over-draft with the National Bank of Haiti for 2.5 million dollars from the last fiscal year and over a million dollars from the preceding year.

Part two. Through gross managerial incompetence Shada, which ten years ago had been acclaimed by its enthusiasts as Haiti's economic saviour with prospects of tripling the national agricultural production, had become a colossal failure. M. Hibbert, trained in economics and statistics, had foreseen this all along, although it was not until he was appointed to the Special Commission to Investigate Shada that he realized how hopelessly incompetent the American management had been. Because of inefficiency and improper planning, Haiti was despoiled of some of its richest resources, particularly the Pine Forest which was wantonly exploited without provision for reforestation. M. Hibbert himself, because he exposed the magnitude of Shada's failure and because he spoke critically of the role played by the American directors, particularly Mr. Darton of the Eximbank, and of the American management, particularly Mr. MacQueen, was branded as anti-American and was advised by the President of Haiti not to go to the United States with the mission which in late 1952 negotiated the Shada settlement.

The lessons to be learned from Shada's failure were: (1) The general inefficiency of bureaucracy and government planning where the profit motive is largely absent (Plantation Dauphin, operating under the free enterprise system, was an example of American management at its best). (2) The costliness of failure of large agricultural development projects like Shada which has saddled the Haitian Government with a 4 million dollar debt which has become an obligation of the Haitian treasury and will make it more difficult to pay for the Artibonite project. (3) In general Shada's failure opened the eyes of the Haitian President and public to the dangers of a similar failure in the Artibonite, where there are signs already of faulty planning.

Part three: The Artibonite presents a number of serious technical problems; among them are: (1) the cadastral survey has suceeded in establishing property boundaries but has only established ownership in

800 plots out of some 24,000, (2) the lowering of the mouth of the Estère River would deprive the inhabitants of that region of water for their rice, and hence of their livelihood, for several years to come, or until the Peligré dam and irrigation works are completed, (3) no provision has been made for evacuation and resettlement of the inhabitants of the reservoir area, (4) the reservoir will silt up in thirty years and, for technical reasons, it will not be possible, as is done in some parts of the United States, to construct another dam further up stream when it is no longer useful.

These technical problems, together with the poor condition and prospects of Haitian finances, counsel a much smaller project, along the lines of the one originally conceived several years ago by Mr. Norman Armour, then Assistant Secretary of State, and M. Hibbert. This project would have cost around 5 million dollars and would have been within the reach of Haitian finances. The KTAM engineers, however, like all engineers who know nothing of economics and give no consideration to who is going to pay and how, decided that a much bigger project would be better. The Haitian Government, at that time not fully aware of the magnitude of Shada's failure, agreed to this proposal. The IIAA planning group elaborated an expensive agricultural development program but gave no hint in their report of how the Haitian Government was to pay for this tremendous project which they themselves estimated would require total outlays by the Haitian Government over a 50 year period of $113 million, which figure the planning group admitted would exceed by $19 million the expected revenues from the project over the same period. To make matters worse, estimated revenues from the project are not realistic and it is doubtful that they would ever reach significant proportions, certainly not during the first 15 years of the project. Practically the only crop which the peasants know how to grow and would grow is rice, and the domestic market for rice in Haiti is already beginning to decline.

The number of people to be benefitted by this costly project amounts to only some 60,000 out of a population of three and a half million. The Haitian Government would be allocating, for years and years to come, a disproportionate share of its revenue for the benefit of a small segment of the population. President Magloire has brought political stability to Haiti but this stability cannot continue unless the Government can show the public some tangible economic results. The Artibonite project cannot hope to do this; on the contrary, it will be a serious drain on the Haitian treasury with no prospect of even breaking even. It would be much more intelligent to apply these funds to developing the tourist trade which could be Haiti's best dollar-earner after coffee. A new airport is also needed, as are roads and improved power and telephone service.

These conclusions made it imperative that the whole Artibonite project be reviewed with a view to curtailing its scope and rescheduling its activities so that it will not constitute such a drain on Haitian economy and so that it can be made technically viable. Perhaps the Canneau intake and related works could be undertaken first, and if this proves a success, consideration could then be given to constructing the Peligré dam after adequate planning for resettlement and erosion control. The decision to go ahead with the expanded project would, of course, be dependent on Haiti's economic outlook at the time.

Following this exposition, M. Hibbert said that he would like to discuss the whole question with members of the Bank's staff to see if some satisfactory arrangement could be worked out.

General Edgerton said that his staff would, of course, give full consideration to M. Hibbert's proposals, though he could not promise what, if anything, could be done to meet them. He assurred M. Hibbert of the cooperation of the Bank in this matter although he added that he could not help but be disturbed that M. Hibbert doubted the economic and technical viability of the project and wished to modify it. General Edgerton said that he could understand some of the Minister's concern, and that he knew, for example, the difficulty of obtaining the cooperation of independent farmers in government planning. He said that he was not too concerned about the silting up of the reservoir, since only a couple of reservoirs in the world had ever completely silted up. He said that even when a reservoir became largely silted up, its usefulness still remained considerable. He said also that he would have assumed that the engineering firm, in which he had great confidence, would have taken into consideration the various technical problems which M. Hibbert mentioned before proceeding, and that therefore it was not entirely clear to him why a new survey of the project would have to be undertaken now. Furthermore, he pointed out that if M. Hibbert's proposals involved a cancellation, or even a major modification, of the construction contract this would inevitably entail extra expense. M. Hibbert then commented that he was not urging a cancellation of the contract but merely a modification of it to rearrange priorities and curtail the scope of certain activities.

In taking leave of M. Hibbert, General Edgerton again assured him that he could count on the full cooperation of the Bank's staff. M. Hibbert said he would like to commence discussions with the staff, if possible, on Monday, October 12, and General Edgerton said he believed this could be arranged.[2]

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[2] No documents relating to subsequent discussions between Finance Minister Hibbert and representatives of the Export-Import Bank concerning modification of the Artibonite project were found in Department of State files.

611.38/11–1053

Memorandum by the Director of the Office of Middle American Affairs (Burrows) to the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward)[1]

CONFIDENTIAL [WASHINGTON,] November 10, 1953.

Subject: Current U.S.-Haitian Problems

By memorandum of November 3, which is attached,[2] your attention was invited to a recent despatch [3] from Ambassador Davis touching on four important problems in our relations with Haiti. Your pencilled note asks whether any action is recommended with respect to these problems. The following comments will answer your question:

(1) Reduction of Haiti's annual contributions to the Eximbank-financed Artibonite Project: A letter from General Edgerton to Ambassador Leger dated November 3 [4] asks the Haitian Government whether, in view of the doubts expressed by Finance Minister Hibbert, it wishes to: (*a*) liquidate the project, (*b*) continue as planned, or (*c*) reschedule the activities so as to lower annual costs. Pending an answer to this letter no further action would seem warranted.[5]

(2) Haitian interest in private financing for public works: Action on our part would not seem appropriate because: (*a*) negotiations are being carried out directly with private U.S. construction and banking firms by the Haitian Government; and (*b*) it might not be in our best interest to encourage Haitian Government to seek to finance additional public works at a time when it says it cannot afford to pay for the Artibonite Project.

(3) Haitian hope of reducing Shada indebtedness: A year ago the Haitians sent a special mission to Washington to negotiate a settlement of the Shada crisis. The Department lent its good offices with the Eximbank, and the Haitian Government received considerable relief in the form of funding arrangements, a moratorium on interest, etc. It would not seem advisable to reopen this issue now and it is very doubtful the Bank would agree to a better deal for the Haitians.

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[1] Drafted by Mr. Connett.

[2] No attachment was found with the source text.

[3] Not identified.

[4] Not printed (838.2614/11–553).

[5] In a memorandum for the files, dated Dec. 1, 1953, Mr. Connett stated that the Export-Import Bank had informed him that it had received a reply from the Haitian Government to General Edgerton's letter of Nov. 3. According to the Bank, the reply indicated, *inter alia*, that despite budgetary problems the Haitian Government was determined to proceed with the Artibonite project as planned, and also that although the Government had budgeted $2 million for the project for FY 1954, it wished to have its annual contribution to the project "average" $1.5 million (838.2614/12–153).

(4) Problems of U.S.-owned power company:[6] Embassy Port-au-Prince, on the Department's instructions, recently lent its good offices in bringing officials of the parent company together with the Haitian President, who displayed a reasonable attitude. It remains now for the Company and the Haitian Government to try to reach an agreement. For the present, there would seem to be no reason for the Department to intervene.

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[6] Apparent reference to the Electric Light Company of Port-au-Prince (Compagnie d'Eclairage Electrique des Villes de Port-au-Prince et du Cap-Haitien) which wanted to negotiate a modification of its concession. Pertinent documents are in file 838.2614 for 1953 and 1954.

738.5 MSP/1-754

The Assistant Secretary of Defense for International Security Affairs (Nash) to the Secretary of State

CONFIDENTIAL WASHINGTON, January 7, 1954.

DEAR MR. SECRETARY: Reference is made to memorandum dated 19 October 1953,[1] from the Department of State, requesting information as to whether the Department of Defense considers that a bilateral Military Assistance Agreement with Haiti would be desirable from a military point of view and, in particular, whether the Department of Defense is prepared to develop a hemisphere defense task for Haiti in establishing its eligibility for grant military assistance under the Mutual Security Act of 1951, as amended.

The Joint Chiefs of Staff have recommended that, from a military point of view, it would be desirable to negotiate a military assistance agreement with Haiti. Further, in a recent revision of U.S. war plans for Latin America, the Joint Chiefs of Staff have included a defense task for Haiti, the execution of which will require the development by Haiti of naval forces estimated at 3 LSFF's (Landing Ships Flotilla Flagship). The force bases for developing and refining the FY 1955 MDA Program are being amended to include these ships. However, the presently proposed FY 1955 MDA Program does not include funds for the provision of military assistance to Haiti.

Attention is invited to the fact that provision of 3 LSFF's to Haiti under the grant military assistance program will constitute a departure from the precedent hitherto followed in Navy programming for Latin America. No vessels have previously been provided under grant aid programs to Latin American countries.

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[1] Not printed (738.5 MSP/10-1953).

On the basis of the recommendation by the Joint Chiefs of Staff, the Department of Defense considers that defense plans and the hemisphere defense task assigned to Haiti require that country to participate in missions important to the defense of the Western Hemisphere. It is, therefore, requested that the Department of State initiate a request that the President find that such military assistance as may be furnished Haiti is in accordance with defense plans which require Haiti to participate in missions important to the defense of the Western Hemisphere.[2]

Sincerely yours, **FRANK C. NASH**

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[2] On May 13, 1954, President Eisenhower made the necessary finding under the Mutual Security Act of 1951 that Haiti's participation in the military assistance program was required by Hemisphere defense plans, and he authorized the initiation of negotiations with Haiti for a bilateral military assistance agreement (738.5 MSP/6–254).

838.2614/2–2654: Telegram

The Secretary of State to the Embassy in Haiti

CONFIDENTIAL WASHINGTON, February 26, 1954—7:19 p.m.

84. From Eximbank. For your information General Edgerton sent letter[1] Minister Hibbert February 24: (a) expressing satisfaction work on Artibonite progressing as planned; (b) rejecting idea of limiting Haitian contribution future years $1.5 million in light inadequacy of this figure and difficulties estimating construction and agricultural development requirements more than year in advance; (c) recognizing no financing problem exists this year in consequence unexpended balances Haitian funds; (d) expressing hope high coffee prices and exports will enable Haitian Government put aside additional funds this year over and above $2,021,000 budgeted as reserve for Artibonite; (e) suggesting Bank mission to Haiti late March to discuss Haitian Government budget figure for Artibonite for 1954–55 and suggesting present information indicates reasonable figure might be about $2.5 million.

Bank study on basis field trip last December and information received since makes it abundantly clear construction program should proceed as planned. Criticisms of project due primarily unwarranted concern Haitian financial and economic prospects. Haitian contribution $1.5 million 1954–55 and 1955–56 would result inadequate financing construction and agricultural development by early 1955–56. In light excellent export prospects and consequent high tax revenue extremely important Haitians build up reserve for Artibonite to avoid possible financing difficulties if coffee prices weaken year from now.

DULLES

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[1] No copy of this letter was found in Department of State files.

738.11/6–254

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] June 2, 1954.

Subject: Recommendation that President Magloire of Haiti be invited to visit the United States

Discussion:

On May 29, during your brief absence, Mr. Murphy sent the attached recommendation to President Eisenhower (Tab A)[2] that President Magloire of Haiti be invited to visit the United States.

The visit was recommended because it would demonstrate the importance we attribute to friendly relations with a very small and poor country, particularly at this time when discussions are taking place with respect to possible action against Guatemala.

Although we have not wished to make this question one of color, it is of interest that the National Association for the Advancement of Colored People has repeatedly urged that an invitation be extended to the President of Haiti.

It is understood informally from the White House that President Eisenhower wishes to discuss this with you before making a decision.

Recommendation:

That, if you agree, you recommend to President Eisenhower that this invitation be extended.[3]

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[1] Drafted by Deputy Assistant Secretary Woodward.

[2] In the referenced memorandum, dated May 28, 1954, Mr. Murphy, on the recommendation of ARA, proposed a 3-day state visit for President Magloire in September 1954, but in a memorandum for the Secretary, dated May 31, 1954, President Eisenhower expressed regret at the number of state visits already planned for 1954 (738.11/6–954).

[3] In a memorandum for the President, dated June 9, 1954, Secretary Dulles recommended, in view of the President's feelings in the matter, that President Magloire's visit be put forward to January 1955 (738.11/6–954). Department telegram 121, to Port-au-Prince, dated June 22, 1954, informed the Embassy that President Eisenhower approved the extension of an invitation to President Magloire to visit the United States in January 1955 (738.11/6–2254).

838.2614/6–954

Memorandum by the Director of the Office of Financial and Development Policy (Corbett) to the Assistant Secretary of State for Economic Affairs (Waugh)[1]

CONFIDENTIAL [WASHINGTON,] June 9, 1954.

Subject: Haiti—Public Works Project

Estabrook and Company, Boston, and the Utah Construction International have inquired whether Eximbank would be willing to guaranty 80% of approximately $10 million financing needed for the dollar costs of a four to six year public works program proposed by Haiti.

Estabrook would form a syndicate of commercial banks, including First National of Boston, to undertake the financing. The syndicate would take risk on 20% of the bond value (about $10 million) outstanding at any one time and on interest payments.

The project calls for alternative programs of either (1) a $20.5 million works program or (2) $18.7 million program. Involved are 121 miles of highway improvement, expansion of electric power production and distribution, expansion and modernization of telephone systems, and dock and airport improvement at Port-au-Prince. Haiti would cover local costs with one dollar of its money for four dollars of foreign money made available. This is the ratio with Eximbank in the Artibonite project.

ARA thinks: (1) the loan guaranty requested of the Eximbank "would be in the U.S. interest and would contribute to our foreign policy objectives"; (2) the proposed projects are basic to Haiti's needs for economic development and would further U.S. policy of encouraging sound economic development, primarily by private enterprise, in Latin America. The program's success would contribute to the stability of the Magloire Administration which is presently friendly to U.S.

However, ARA has the following *Reservations:*

(1) It is not clear whether Haiti fully understands Eximbank role in this proposal;

(2) The exact scope of the program or its cost is not clear. The proposal too closely represents a line of credit which ARA believes would be undesirable;

(3) Questions arise as to the relationship of power development to the private American Company and the possible installation of hydroelectric generators in Artibonite Dam;

(4) The proposed draft contract between Estabrook and Haiti gives banking syndicate unwarranted rights, vis-à-vis Haitian Government which, if carried out, could result in political repercussions;

(5) ARA desires prior consultation for political reasons if Eximbank decides to take definitive action on Estabrook's request.

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[1] Drafted by Phil R. Atterberry of the Office of Financial and Development Policy; cleared in draft by Chief of the Investment and Economic Development Staff Emerson A. Ross.

Recommendation: ED concurs with the ARA position including the reservations and recommends that the Department's position should thus be approval in principle, but with any definitive action by the Bank to be subject to further prior consultation with the Department after the Bank has obtained more adequate information designed to clarify the economic merits of the proposal and to resolve the Department's reservations.[2]

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[2] In a memorandum to Assistant Secretary Holland, dated June 14, 1954, Assistant Secretary Waugh indicated his approval of this recommendation, and stated that, at ARA's request, he would informally advise the Export-Import Bank of the Department's position (103 XMB/6–1454).

Information in Department of State files indicates that the Export-Import Bank made no decision on the Haitian request in 1954.

838.2553/9–2954

Memorandum of Conversation, by Charles H. Whitaker of the Office of Middle American Affairs

OFFICIAL USE ONLY [WASHINGTON,] September 29, 1954.

Subject: Haitian Petroleum Monopoly

Participants: Ambassador Léger of Haiti
MID—Mr. Newbegin
MID—Mrs. Hood[1]
MID—Mr. Whitaker

Mr. Newbegin stated that the Department had received word that the Haitian Government is actively considering a proposal of representatives of the Murchison[2] oil interests in Texas to build an oil refinery in Haiti under a contract with the Haitian Government, which would assure the new organization certain monopolistic privileges.

Ambassador Léger said that he only knew of this proposal from what he had read in the newspapers and understood that it had been turned down by the Haitian Government. He stated that he believed a monopoly of this sort was unconstitutional in Haiti.

Mr. Newbegin replied that while the U.S. did not wish to interfere in any internal Haitian matters, and followed the policy of encouraging competition between American companies, he wanted Ambassador Léger to know, nevertheless, that our Government opposed any monopoly granted to one American firm which would exclude the competition of others. Mr. Newbegin also stated that while the Murchison interests are well and favorably known, the granting of the contemplated monopoly could have a very serious detrimental effect on future U.S. investments in Haiti, since American businessmen would feel that any other business ventures might suddenly become unprofitable as the result of a similar governmental contract.

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[1] Amelia H. Hood.
[2] Clint Murchison.

Ambassador Léger stated that he would inform his Government by cable of the attitude of the U.S. Government concerning this matter.[3]

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[3] In a memorandum of conversation between Ambassador Léger and Director of the Office of Middle American Affairs Newbegin, dated Oct. 5, 1954, the Ambassador is reported to have stated that "he desired to give assurances that his Government would undertake no measures which would prejudice established American oil companies in Haiti and would take no steps in this matter without consulting with the U.S. Embassy and cooperating fully with the United States Government." (838.2553/10–554)

738.5 MSP/10–654

Memorandum by the Director of the Office of Military Assistance, Department of Defense (Stewart) to the Special Assistant to the Secretary for Mutual Security Affairs (Nolting)

SECRET WASHINGTON, October 6, 1954.

Subject: Grant Military Assistance for Haiti

1. Reference is made to your memorandum of 16 July 1954,[1] which:

a. Expresses the opinion of the Department of State that it would be desirable from the political point of view to conclude a bilateral military assistance agreement with Haiti, and

b. Requests the Department of Defense to make available sufficient funds to provide Haiti with grant military assistance in FY 1955.[2]

2. The Department of Defense has considered all aspects of the Mutual Defense Assistance Programs with respect to Latin America and has concluded that, in view of the limited funds appropriated by the Congress for the current fiscal year and the reduction in the carryover of MDA funds from prior years, it would be infeasible to make any adjustments in the existing programs to provide military assistance to Haiti. It is the judgment of the Department of Defense that funds currently available for existing Latin American programs are required for those programs if U.S. objectives in Latin America are to be met.

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[1] Not printed (738.5 MSP/6–1554)

[2] Special Assistant Nolting's memorandum of July 16 reads in part as follows: "It is the understanding of the State Department that only a relatively small amount of funds would be required to provide Haiti with the type of grant assistance recommended. Accordingly, the Department of State requests that the Defense Department make whatever small adjustment may be necessary in other country programs in Latin America in order to make available sufficient funds to provide Haiti with grant assistance during FY 1955." (738.5 MSP/6–1554)

3. In view of the fact that the Department of State desires, from a political point of view, to conclude a bilateral military assistance agreement with Haiti, the Department of Defense will reduce the FY 1955 MDA Program for France and Italy in order to provide the necessary funds to furnish military assistance to Haiti under the provisions of Section 105 of the Mutual Security Act of 1954.[3]

4. It is believed advisable to report the new program for Haiti to the Congressional committees indicated in Section 513 of the Act. Accordingly it is requested that the Department of State furnish this office with the appropriate justification for this program, to be used in notifying the Congressional committees concerned.

G. C. STEWART
Major General, U.S. Army

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[3] Public Law 665, approved Aug. 26, 1954; for text, see 68 Stat. 832.

738.5 MSP/10–654

Memorandum by the Special Assistant to the Secretary for Mutual Security Affairs (Nolting) to the Acting Director of the Office of Military Assistance, Department of Defense (Wilson)[1]

SECRET [WASHINGTON,] November 10, 1954.

Subject: Grant Aid Military Assistance Program for Haiti.

I refer to General Stewart's memorandum of October 6, 1954,[2] which stated that the Department of Defense would be prepared to reduce the FY 1955 mutual defense assistance programs for France and Italy, in order to provide funds necessary to conduct a grant military assistance program for Haiti, in the event a bilateral military assistance agreement should be concluded with that country.

The Department of State was informed by the Assistant Secretary of Defense, in a letter of January 7, 1954,[3] that the Department of Defense considered U.S. defense plans to require Haiti to participate in a hemispere defense mission requiring the development by Haiti of naval forces consisting of three LSFF's. On the assumption that no more than $1 million of funds will be required to implement such a program for Haiti during the present fiscal year, the State Department approves the Department of Defense recommendation that funds now allocated for France and Italy be used for that purpose.

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[1] Drafted by Mr. Spencer, with the assistance of Leonard H. Price of the Office of the Special Assistant to the Secretary for Mutual Security Affairs.

[2] *Supra.*

[3] *Ante*, p. 1275.

The Department of State will appreciate being informed of the approximate date on which Department of Defense representatives would be prepared to arrive in Port-au-Prince for negotiations with Haitian representatives for the conclusion of a bilateral military assistance agreement and a secret bilateral military plan. As soon as the Department of Defense has indicated its preference for a date for beginning negotiations, the Department of State will make necessary arrangements with the Haitian Government.[4]

With reference to the final paragraph of General Stewart's memorandum, it is suggested that in reporting the new program for Haiti to the congressional committees, this program be related to the hemispheric defense role of Latin America as a whole, with such additional justification as may be indicated in the recommendations of the Joint Chiefs of Staff to which reference was made in the letter of January 7, 1954 addressed to the Secretary of State by Assistant Secretary of Defense, Mr. Frank Nash.

FREDERICK E. NOLTING, JR.

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[4] In telegram 109, from Port-au-Prince, dated Dec. 21, 1954, the Embassy informed the Department that the Haitian Government was willing to initiate negotiations during the first week of January 1955 for a military assistance agreement (738.5 MSP/12–2154); the negotiations actually began on Jan. 10.

611.38/11–1054

Memorandum of Conversation, by Charles H. Whitaker of the Office of Middle American Affairs

SECRET [WASHINGTON,] November 10, 1954.

Subject: Most Important Current Problems before the American Embassy in Haiti

Participants: Ambassador Davis
MID—Mr. Newbegin
MID—Mr. Neal
MID—Mr. Whitaker

Mr. Newbegin believed that enough time had now elapsed to permit the Haitian Government to be adequately informed about reactivating the FCN Treaty negotiations. He suggested that the Embassy make every effort to have this Treaty ready for signing when President Magloire is on his official visit to the United States. In this connection, all members present felt it would be desirable not to disclose the status of the Military Assistance Pact until FCN Treaty negotiations have reached a more advanced state in order to give the impression that the latter would be the only document available for signing during the official visit.

Ambassador Davis felt that the problems of the electric light company would soon become much more difficult and that a permanent solution of this matter would be desirable. He agreed to forward a copy of the contract under which the company now operates if this is not now available in the Department. The Ambassador felt that the legal position of the company is weak, that it would probably not fare very well if its case were to be arbitrated and that every effort should be made to arrive at a settlement in the near future.

With reference to problems in connection with the proposed petroleum refinery, Ambassador Davis felt that he should remind the Esso representative of his promise to lower the price of kerosene to a point where it would be able to compete with charcoal and help prevent the denuding of the Haitian forests.

With reference to the Rio Conference,[1] he felt that Minister Jumelle[2] would want more loans and financial aid.

Ambassador Davis stated that the International Bank was not interested in financing a hydro-electric power plant at the Artibonite Dam at this time but would probably agree to special smaller development projects like roads. He added that the Bank was sending a group of specialists to Haiti on November 12. The International Bank plans to suggest a National Development Committee to recommend priorities among different projects and keep President Magloire informed.

The Export-Import Bank is also not interested in financing the hydro-electric power project and feels that the private power company should be much more reasonable with reference to its negotiations with the Haitian Government.

Ambassador Davis mentioned briefly friction between Mr. Duviella of ODVA, who was able but difficult to deal with, and Mr. McCarthy of KTAM, who was inclined to be quite outspoken. Ambassador Davis felt that the Haitian budget, recently reduced from 140,000,000 to 128,000,000 gourdes, contained an appropriation for the Artibonite project.

With reference to the FOA program, Ambassador Davis plans to investigate the underlying causes of recent statements of the Minister of

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[1] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly referred to as the Rio Economic Conference), held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation on the meeting, see pp. 313 ff.

[2] Clément Jumelle, Haitian Secretary of State of Finance and National Economy.

Foreign Relations.[3] Mr. Newbegin felt that if the FOA program was not wanted in Haiti, it should certainly be withdrawn. Ambassador Davis felt that Minister Zephirin was not favorably disposed toward this program.

Ambassador Davis brought up the matter of the sovereignty over Navassa Island, which is most important to the Haitians. He mentioned his belief that Haiti would be willing to sign any type of agreement for our use of this island, should we relinquish our claims to sovereignty over it.

Ambassador Davis reported that Minister Zephirin hates Generalissimo Trujillo. President Magloire also has misgivings but maintains an attitude of correctness and fears Dominican penetration in Haitian politics. He emphasized that the Haitians are doing everything possible to keep relations on an even keel. Ambassador Davis felt that it would be preferable for him not to be here during the visit of President Magloire. Mr. Newbegin stated that this matter was entirely up to Ambassador Davis and if later he thought it desirable to make the trip he should inform the Department so that necessary arrangements can be made.

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[3] The particular statements by Foreign Minister Zephirin referred to here were not identified; presumably they were similar to his remarks made on Oct. 31 concerning the attempt of an unnamed "foreign power" to intervene in the internal affairs of Haiti (memorandum by Mr. Hoyt to Mr. Newbegin, dated Dec. 14, 1954, 838.00/12–1954).

838.49/12–1454

Memorandum by the Director of the Office of Middle American Affairs (Newbegin) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

CONFIDENTIAL [WASHINGTON,] December 14, 1954.

Subject: Haiti's Economic Difficulties—FOA Problems

Discussion

(1) *FOA Matters*

During the past few weeks we have received numerous communications describing the resentment of President Magloire and other Haitian officials at certain actions of FOA personnel in connection with the distribution of the some $2,700,000 worth of relief supplies for Haiti.[2] Most of the criticism was directed against Mr. Stanley Baranson, who was Acting Chief of the USOM at the time and in charge of the distribution of the relief supplies. The matter became so serious and had such a definite bearing on our relations with top Haitian officials that it became necessary to transfer Mr. Baranson and Mr. William Shaw, a customs expert.

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[1] Addressed also to Mr. Cale; drafted by Henry A. Hoyt of the Office of Middle American Affairs.

[2] The United States furnished emergency relief supplies to Haiti in the wake of destruction caused by Hurricane Hazel which stuck the country in mid-November.

While the FOA did a marvelous job of allocating and getting these emergency supplies to Haiti, the apparent lack of tact on the part of their representatives detracted from the overall effectiveness of the very charitable and worthwhile emergency program which we developed following Hurricane Hazel. The differences became so great that the Haitian Army is planning to withdraw from the distribution program on December 15, leaving a question as to just how much the relief supplies are needed if the Haitians themselves are not willing to continue their distribution.

(2) *Further Emergency Program*

On November 30 Mr. Eugene Clay of FOA proceeded to Haiti on an official visit. Although he had recommended that $3,000,000 be budgeted for an emergency program for Haiti in FY 1956, he knew before he left for Haiti that this item had been cut from the budget and that there were no funds available for additional Haitian relief.

Nevertheless, a meeting with President Magloire was held in Port-au-Prince, with Ambassador Davis, Mr. Clay and Mr. Barall of the Embassy present.[3] Haiti's economic difficulties were discussed and it was suggested that a commission be named by the President which would make recommendations as to Haiti's economic needs over and above any assistance which might be obtained through public or private loans. It was suggested that such additional help might be obtained under Sections 401 or 501 of the Mutual Security Act, although it was pointed out that no funds for this program were now available. It appears, however, from correspondence from the Embassy that the Haitians definitely gained the impression that such funds would be forthcoming when they presented a documented request. It seems possible this impression arose from the manner in which Mr. Clay presented the matter.

(3) *Artibonite Difficulties*

Meanwhile, Brown & Root, the contractors who are building the dam and irrigation canals for the Artibonite Valley project, have experienced difficulties in having claims for payments which they have made on the work processed by the ODVA (the Haitian committee handling the development of the Artibonite Valley). The Eximbank had granted a loan of $14,000,000 for the Artibonite project and the Brown & Root expenses were to be paid from this loan. It now appears there are not sufficient funds to complete the Artibonite project and the Haitians will probably ask the Eximbank for a further loan.

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[3] No memorandum of this conversation was found in Department of State files.

Representatives of the ODVA are leaving Port-au-Prince for Washington on December 15 and will confer with Eximbank officials from December 20–23. We consider that the Artibonite project is an important and essential one to Haiti's economy and should be continued.

(4) *IBRD Mission*

A mission from the International Bank just returned from Haiti today after making a survey to determine whether there was a basis for an IBRD loan to Haiti. Apparently, the project being most considered by the Bank is a road from Port-au-Prince to Aux Cayes. Preliminary reports have indicated there might be some question as to whether the Haitians would accept the conditions which the IBRD would place on such a loan.

(5) *Other Financial Difficulties*

Top representatives of the Haitian National Bank called at the Embassy secretly to inform the Ambassador that Haiti's finances were in extremely bad shape; that there was a deficit of 32,000,000 gourdes ($6,400,000) and that 23,000,000 gourdes of this consisted of an overdraft at the Bank. They estimated that there will be a severe drop in Haiti's income as a result of damage done by the hurricane to the coffee crop and that the Government has not yet been willing to institute the genuine economies and real austerity which is required. The Bank referred to continued graft and expressed the fear that it will be called upon to finance uneconomical development projects.

(6) *General Situation*

All the foregoing has resulted in a sudden presentation by the Embassy to the Department of a very dismal picture insofar as Haiti is concerned. The Embassy has stated that if assistance is not given, economic chaos in Haiti might result and that even the stability of the Administration might be threatened. A recent letter from Mr. Barall states that the Haitians are so sure they will receive aid from the United States that the failure to receive any such aid will result in the United States being criticized severely and being blamed for Haiti's condition. Mr. Barall recommends that some three to five million dollars be allocated under the emergency program and that the Embassy and the USOM be authorized to "dole out" this amount for projects in Haiti which are sound and which will benefit Haiti's long-range economy. He believes that assistance of this type would not only satisfy Haiti's desire for additional aid, but would also assure that the funds are used wisely.

Comment

So far, we have conflicting reports as to the exact extent of the emergency in Haiti. The Ambassador and other competent observers seem to feel that the hurricane damage has been exaggerated and that the damage to the coffee crop is not as great as at first estimated.

There also seems to be a tendency to blame a lot of conditions, which have existed for many years in Haiti, on Hurricane Hazel. Further, it is a little surprising that this "extreme emergency" has developed so very fast and that we now find ourselves faced with the "urgent problem" of saving Haiti from "chaos."

Recommendations

(1) Complete documentation of all the requests for aid to Haiti should be obtained before any approval is given.

(2) The Artibonite Valley project should be completed, as perhaps the most essential and most important project now under way in Haiti. If additional funds for its completion are needed, support for such funds should be made to the Eximbank.

(3) Any loans which the IBRD feels (as a result of its recent survey) can be made for worthwhile projects, should be encouraged. The Haitians should be urged to comply with any of the conditions required by the Bank.

(4) The Haitians should be encouraged to seek loans from private sources. It has been intimated that the Haitian-American Sugar Company and the electric company in Haiti would be willing to invest further sums if given adequate guarantees by the Haitian Government.

(5) An emergency program for Haiti under the Mutual Security Act should be considered only if it is definitely proven such help is needed over and above aid which can be obtained through private and public loans. Such emergency assistance should be given only on the basis of proven Haitian needs and should not be allowed to develop as another FOA giveaway program.

(6) Aid to Haiti should be conditioned on the basis that Haiti will do more than it has so far to help itself.

(7) No expansion of the regular FOA program should be made unless the Embassy concurs. The Embassy has just made some specific recommendations in this respect, and they should be followed closely.[4]

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[4] The source text bears a handwritten notation by Assistant Secretary Holland indicating that he approved the recommendations.

MID files, lot 57 D 148, "Point IV–Miscellaneous"

Memorandum by the Director for Northern Division Latin America, Foreign Operations Administration (Clay) to the Acting Regional Director of the Office of Latin American Operations, Foreign Operations Administration (Hardesty)

CONFIDENTIAL [WASHINGTON,] December 27, 1954.

Subject: Emergency Economic Assistance to Haiti

Summary and Recommendation

The $2,000,000 worth of surplus agricultural commodities plus funds for transportation and the $350,000 worth of seeds and light agricultural tools which have already been made available have provided the means for the Government to maintain reasonably tranquil conditions in this immediate period following the hurricane disaster. On the basis of initial reports, however, it was anticipated that additional emergency assistance would be required to enable Haiti to recover from this disaster. The FY–1956 Program proposed by FOA, therefore, included $3,000,000 in addition to the normal technical cooperation program for emergency assistance. This proposed $3,000,000 was eliminated by State.

Since that time, the President of Haiti has orally requested our Ambassador, at a meeting[1] attended by the Director of USOM[2] and myself, for emergency assistance. The Ambassador informed the President that he did not know whether such assistance could be made available, but that in any case, an official written request would be required. Following the oral request, the Director of USOM and I met with a committee appointed by the President and on each occasion it was carefully explained—

(*a*) that no funds were contained in the FY–1955 or proposed FY–1956 budget for such assistance;

(*b*) that there was absolutely no assurance that funds could be obtained and it would at best be extremely difficult;

(*c*) that any request would have to be directly related to the disaster and not for normal economic development, and

(*d*) that before any request could even be considered, it would have to be established that the emergency could not be met through maximum feasible effective utilization of the country's own resources and borrowing capacities.

It was added, however, that it was believed that the same type of analysis and program would be required as the basis of any loans.

The President again requested the Chargé and the Director of USOM for emergency assistance on December 22 and a formal written request will probably be submitted to the Embassy within the next two weeks. In the interim, however, both the Embassy and the USOM have reported on the basis of the information available to them that emergency assistance will be required. I fully concur in their conclusion on the basis of my own evaluation after a ten day visit to Haiti and believe that the situation requires an immediate policy decision on emergency assistance on the basis of the cables from USOM and the Embassy even prior to receipt of the official written request. It is understood, however, that the Department of State still believes that such emergency assistance is not justified. I, therefore, strongly urge that someone at a high level in this Agency request State to reconsider this decision.

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[1] No record of this meeting was found in Department of State files.

[2] Raymond C. Smith.

On the basis of preliminary estimates, it is believed that the minimum additional emergency assistance required is approximately as follows:

FY–1955	$500,000 to $750,000
FY–1956	$250,000 to $3,000,000
FY–1957	$1,000,000

It is recommended that the Mission should be immediately authorized to talk with the Haitian Government in terms of figures as possible maximums in order to induce the Government to get down to reality and to get a concrete program under way while the emergency assistance already provided permits the situation to be kept under control and before really serious trouble arises.

Background

The FY 1953–54 revenues of Haiti were approximately the equivalent of $35,000,000 of which approximately $10,000,000 was utilized for economic services and development including $3,000,000 for the Artibonite Valley development for which the Export-Import Bank is also providing a total of $14,000,000 in loans over a period of years. It is anticipated that as a result of disaster damage to coffee and other crops, revenues will fall to approximately $24,000,000 in the first year following the disaster and that three years will be required before they can be restored to a normal level, even if additional emergency assistance is made available. The Government of Haiti estimates that exports will be down by as much as 50% and although this estimate may be excessive, it is anticipated that they will be at least ⅓ below normal.

The regular normal expenditures of the Government can of course be cut and some planned development projects postponed. The budget, however, cannot be cut to the level of earlier years without bringing practically to a halt the meagre economic development program which the Government has painfully gotten under way in recent years and this, it is believed, would be disastrous. The Government, moreover, is faced with the necessity for heavy additional expenditures for reconstruction and rehabilitation essential to permit a large percentage of the population to again earn a livelihood. There will, therefore, inevitably be an extremely serious gap between revenues and essential expenditures. This gap can not all be met by internal loans or by loans from Export-Import Bank and International Bank for Reconstruction and Development. The only internal source from which the Government can borrow funds is the Central Bank which can make such funds available only by an expansion of the note circulation. The

Bank believes that any further drawings by the Government would result in disastrous inflation and while I do not have the information to attempt to make a precise analysis, the extent to which the note circulation could be further expanded is at best extremely limited. The Government moreover, does not have the borrowing capacity to obtain funds from the Export-Import Bank or the IBRD to meet this emergency even if repayments were long deferred. The Export-Import Bank has tentatively indicated its willingness to consider increasing the loan for the Artibonite Valley because of increased costs since the time of the original estimates, but this would not take care of internal costs which are normally met from budgetary revenues. It is believed that the maximum additional borrowing capacity above the possible increased loan for the Artibonite is required for the Port-au-Prince–Aux Cayes road and the Artibonite hydro-electric projects which are essential for the economic future of Haiti. These projects are now being discussed with the IBRD and they most emphatically should not be delayed until any loans for the present emergency could be repaid.

Emergency economic grant assistance is required primarily in FY–1956 and on a reduced scale in FY–1957. I believe, however, that it is essential that some funds be made available in FY–1955 under Section 401 for rehabilitation and reconstruction. Work on restoration of irrigation works and rehabilitation of the coffee industry should start immediately, but the Government does not have funds to do so. There is also the problem of the very existence of many of the people in the immediate disaster areas. The emergency food supplies that have been provided should last to approximately February 1. By that time there should be adequate internal food supplies in the country as a whole. A large number of the population in the immediate disaster areas, however, will have meagre crops of their own. Many of them will not have the funds with which to purchase food from other areas in Haiti and the Government will not have the funds to purchase the food for them. Under these circumstances additional surplus agricultural commodities would seriously disrupt the economy of the country and the only logical answer is immediate initiation of the rehabilitation and reconstruction program which would provide employment for at least some of these people.

Any grant emergency assistance provided to Haiti must be strictly conditioned on effective utilization of the Country's own resources and anticipated borrowing capacity. The need is so urgent, however, that the provision of emergency economic assistance should not be delayed until the final decision is made on loans. Instead, such assistance should be made available immediately on the basis of written undertakings by the Government and funds then progressively made available as the Government performs pursuant to its undertakings.

The administration of a program of this kind would be most difficult under conditions existing in Haiti, but the fact that the Acting Mission Director, Stanly Baranson, was able by standing firm to get the Government to distribute the emergency food supplies honestly and effectively is at least some evidence that it could succeed.

[Here follows reference to attachments which were not found with the source text.]

838.00 TA/12–3154 Telegram

The Secretary of State to the Embassy in Haiti[1]

OFFICIAL USE ONLY WASHINGTON, December 31, 1954—4:19 p. m.

87. Joint State–FOA. Subject: Emergency Assistance.

1. Decision emergency assistance cannot be made basis general statement of need. President should also clearly understand no advance assurance such assistance can be made available, would be limited in amount and would have to be directly related disaster needs.

2. Require:

a. Estimate hurricane and rain damage coffee, cacao, other crops; irrigation works and roads. Effect on budgetary revenues, exports and national income.

b. Estimate Haitian FY54–55, 55–56 revenues and balance of payments.

c. Estimate maximum borrowing capacity internal and external sources.

d. Estimate essential minimum expenditures for normal gov operations; continuing and any new top priority development projects which should not be delayed such as Port-au-Prince/Aux Cayes road and Artibonite hydroelectric; rehabilitation and reconstruction essential permit population again earn livelihood.

e. Gap if any U.S. FY–55 and 56 between revenues and anticipated loans and essential expenditures for which emergency assistance requested.

f. Program for all proposed expenditures except for normal gov operations which can be stated by general categories. To the extent available specific details should be included on projects for which emergency assistance requested. Need for assistance on such projects must be directly related to disaster. Possible examples are rehabilitation coffee and cacao, reconstruction irrigation works, land preparation, etc. in Artibonite not under contract and which normally financed budgetary revenues. Some repair roads in immediate disaster area might also be included.

g. Undertaking by gov effectively to utilize all available resources carry out stated program.

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[1] Drafted by Mr. Clay, approved by Mr. Newbegin.

3. Preparation proposed program solely responsibility Haitian Gov and assure President no desire interfere. If projects included however which are not top priority in present emergency seriously doubt if emergency grant assistance could be justified. For example while Petion–Ville road may be sound project later date, do not consider top priority this time and if gov has funds for this project difficult explain Congress need grant assistance from US.

4. FYI only. USOM in conjunction Embassy should be simultaneously making analysis and preparing estimates and program requested Para 2 to facilitate review Haitian request and to advise Washington to permit advance planning. Unless overriding reasons to contrary USOM should also be available on request as agreed by Ambassador Davis to advise Presidential Committee as whole and individual members on form and technical details.

5. FYI only. We are coordinating with Export-Import Bank and IBRD. If real emergency need demonstrated which cannot be met by effective utilization revenues and loans, will make every effort provide assistance from other sources. Same would however not exceed general level of $3 to $4 million over 2 years or so.

DULLES

HONDURAS

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND HONDURAS[1]

Editorial Note

By exchange of notes signed at Tegucigalpa, January 22, March 20, and April 23, 1952, and entered into force on the latter date, the United States and Honduras concluded a Military Air Transit Agreement; for text, see Department of State Treaties and Other International Acts Series (TIAS) No. 2502, or *United States Treaties and Other International Agreements* (UST), volume 3 (pt. 3), page 3734.

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[1] Continued from *Foreign Relations*, 1951, vol. II, pp. 1465 ff.

815.00 TA/4-2452

The Ambassador in Honduras (Erwin) to the Department of State

CONFIDENTIAL
No. 650

TEGUCIGALPA, April 24, 1952.

Ref: Policy Guidance of March 5, 1952[1] to TCA Country Director from Acting Administrator, TCA.

Subject: Comment on Policy Guidance Regarding Labor and Manpower Aspects of TCA Program.

The policy guidance under reference states the policy of the Point Four Program to encourage countries to establish fair labor standards and to develop free labor union movements as collective bargaining agencies. The legislative and administrative aims described in the memorandum are commendable and obviously worthwhile, and they will be borne in mind in carrying out the technical assistance program in Honduras. It is readily perceived that guidance can be offered and given in several labor fields. Industrial training and apprenticeship, for example, offers many opportunities. Point Four will likewise be able to do useful work in labor market analysis, migration, labor statistics and possibly in advising with respect to the establishing of the labor bureau. The importance of labor in accomplishing the ends of the Point

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[1] Not printed (MSA–FOA Director's Files, FRC 56 A 632).

Four Program is fully realized by the Embassy and the Country Director in Honduras.

The Embassy would be considerably less than forthright if it left the impression that the Point Four Program here can actively engage in labor propaganda with any hope of success. The scope within which the Point Four Program will have to work in labor affairs will be circumscribed for a long time to come. Although United States Point Four participants are not overlooking the significance of labor in overall planning at this stage, they are aware of its limitations and dangers and particularly of the necessity of proceeding slowly and cautiously.

Honduras is aware of the need for labor legislation. During the last year several labor measures have been passed. Labor legislation was included in a revision of the mining code and in the aviation law; a workmen's compensation act and a women's and children's labor act has been enacted; a labor bureau is to be established. But Honduran development in social welfare compares roughly to that in the United States at about the turn of the century. The help which the United States offers in the labor field must be gauged to this development. To appear to force labor legislation or unions upon Honduras will be regarded as intervening in domestic politics.

The visit of Serafino Romualdi of the American Federation of Labor in 1950 caused trepidation in Government circles. The activities of Argentine labor attachés are resented by the Government. Open advocacy of labor unions by the Embassy will be greeted by the Government with a coolness which will freeze the whole technical assistance program—if indeed it did not result in the whole "kit and kaboodle" of Point Four Experts being declared *persona non grata*. The Government, for example, has objected to reduction from nine to eight hours of Health and Sanitation programs of IIAA.

Advocacy of unions and labor legislation by the Embassy will be resented by business. The suggestion of C(9) that Point Four people should urge American business to improve labor standards is a thorny proposition. The Embassy's first reaction is that since the labor policy of most large enterprises in Honduras is established by the American headquarters of such corporations as the United Fruit Company, the Standard Fruit and Steamship Company, the New York and Honduras Rosario Mining Company, the Pan American Airways and others, it would be more practicable to begin the suggested campaign of education at the source.

The principal mines in Honduras have been established upon a basis of cheap labor. Every suggestion that labor unions in the mines would be a good thing is met with derision and anger. The Embassy's perception of the need for the improvement of the labor position as a counterweight to Communist propaganda, when communicated to private companies is not readily understood or accepted. As long as the Embassy has to work with such enterprises, it cannot directly aid and abet their unionization. It is much the same with all American enterprises here. Two years ago one of the fruit companies discharged several men for organizing the machine shop. An Embassy employee's suggestion that organization might have been desirable immediately put the adviser under suspicion. Not long ago TACA Honduras, an American controlled company, discharged two employees for agitating for wage increases.

The American companies doing business in Honduras are the backbone of the Honduran economy. They can, with justification, point out that the working conditions of their Honduran employees is much better than that of Honduran workmen in general. The fruit companies, the airlines and the petroleum distributors all pay higher wages and provide more workmen's benefits than Honduran employers. Bearing this in mind, they can quite honestly state that they are the vanguard with respect to social welfare benefits and that without attempting to move too rapidly they are already showing the way to the local Government and local enterprises with respect to workmen's benefits. Sincerely believing that they are benevolently conferring upon Honduran labor advantages and compensations which it would not otherwise receive, these companies could with justification object to United States Government employees' gratuitous attempts to advance social improvements rapidly for these companies strongly feel that Honduran labor is not yet prepared.

Labor is a controversial political matter. Bearing this forever in mind, the Embassy will not overlook its significance in the Point Four Program. As the Department and other end-using agencies in Washington are fully aware, this Embassy has the sympathetic interest of Honduran labor at heart. It has frequently expressed its attitude on this subject in labor reports during the last four years.

JOHN D. ERWIN

715.00/6–1253

Memorandum by Gordon S. Reid of the Office of Middle American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)[1]

SECRET [WASHINGTON,] June 12, 1953.

In view of my forthcoming departure after six years as desk officer, it appears reasonable to set forth some information about Honduras for the benefit of those who will be here after I leave.

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[1] Addressed also to Special Assistant to Assistant Secretary Woodward, Deputy Director of the Bureau of Inter-American Affairs Neal, and Officer in Charge of Central America and Panama Affairs Leddy.

In early 1947, a telegram[2] was received in the Department which described Honduras as being a "paradise" in the midst of a world of tension and uneasiness. For months thereafter, Honduras was known as the "paradise of the Western world" and this joke became more and more a facetious description of the events in that country. At that time it was still under the dictatorship of Carias[3] who, admittedly, reigned as a beneficial and austere tyrant for sixteen years. His regime brought certain benefits to the country which fell into two main categories, political peace and financial rehabilitation. Honduras has had 116 presidents in 120 years and its external debts, when Carias took office, amounted to around $11 million and its internal debt amounted to about $36 million. However, the cost to Honduras for his regime was not only in the loss of civil rights for the entire population, but also in the shutting off of the country to progress and development. Until 1943, Carias built no roads, maintained his social welfare program at the lowest possible level, and lived primarily on proceeds derived by yearly agreements with the United Fruit Company, Standard Fruit Company, and the New York & Honduras Rosario Mining Company

In foreign affairs, Honduras maintained a policy of strict neutrality and its army was maintained at about 6,000 men some of whom actually showed up for roll calls, barracks duty and other normal military services. The political hangers-on around Carias devoted most of their attentions to grafting and the *Comandantes* of the provinces were strong-arm men known to be loyal to Carias.

It is my personal opinion that a part of the trouble now facing the American companies arose from the feeling of security and stability resulting from Carias' policies. They lulled themselves into a belief that Honduras would never change and that their activities were above reproach. During these years, many Hondurans departed in self-imposed exile and came to the United States where they went through school and college and, in some cases, became United States citizens. A smaller number in late years became infatuated with the social experiments in Guatemala and one became the secretary to President Arbenz.

This "paradise" was, therefore, misleading and our Embassy during those years did nothing to look beneath the surface.

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[2] Not identified.

[3] Tiburcio Carías Andino ruled Honduras from 1933 to 1949.

Part II

At present the "paradise" has disappeared. With the inauguration of Galvez[4] in 1949, civil rights returned to Honduras and with them came a return of many of those who had been in exile. No political party activities occurred until 1952 when the climate began to warm up for the elections to be held in 1954. Under the Honduran Constitution, a candidate for a party cannot begin his campaigning until one year prior to the election. The Galvezistas, all normally members of the Nationalist Party, began to put pressure on President Galvez to run for office again. The President resisted this pressure and in various statements assured the country that the constitutional requirement that no man succeed himself would be followed. However, after increasing pressure, the National Reform Party was established. It is sponsoring a constitutional amendment to allow Galvez to run again. In the last few months he has made no efforts to stop the activities of this group and it would appear that he is now willing to be reelected.

This action would appear to be about to cause a split between Carias and Galvez and it would also appear that an important, new party has been established in Honduras. The Nationalist Party, headed by Carias, will have to seek a candidate. While they may rely on Carias, it is unlikely that he would again be a candidate at the age of 78. For the future it would appear that a great deal of turmoil will take place and that a dangerous split may arise during the electoral campaign. The bitter feelings engendered might be a forerunner of longtime trouble in Honduras. In the event of Galvez running for reelection against either Carias or another candidate of the Nationalist Party it is very likely that a reasonably honest election would occur and it now appears equally certain that Galvez would win easily.

Philosophically, there is little difference between Galvez and Carias in theory, but in practice Galvez is a much more liberal person, devoted to the rights of the population and abler in the development of his country economically. Both are anti-communists and both fear Guatemalan impingement on Honduran territory and life. The nationalistic trend shown under Galvez would probably continue under Carias, but the American companies would probably once again be able to make "special arrangements" with a Carias government which they could not make, and have not been able to make, with Galvez. The weaknesses of the Galvez regime are obvious. Mainly they are that he relies to a large extent on Ministers who are not experts in their fields and who are easily swayed by nationalistic arguments.

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[4] Juan Manuel Gálvez.

The third party in Honduras' political life is the Liberal Party. This party is suffering a period of doldrums resulting primarily from a loss of leadership and its revolutionary tendencies during the Carias regime. It has no real hope in the near future and would probably join with the Reformed Party in reelecting Galvez.

Part III

Financially, Honduras is in excellent condition. Galvez devoted the first year and a half of his term to paying off the last of the external debt and today Honduras owes no bondholders or bankers anywhere in the world. Its internal debt has been cut to $8 million which is well within its ability to service. Dollar reserves now stand at $27 million and each year the budget has shown a surplus averaging about $1,500,000. This type of unbalanced budget would appear to give Honduras a fine place in international credit.

The economic development of the country has progressed under Decrees No. 104 and 105 of April, 1950, which set up an orderly plan for development and one within the Honduran's ability to absorb. Roads have been opened and are being opened. Port development is under consideration and first changes in the reorganization of the government are underway. In cooperation with the Point Four Program of the United States, developmental activities in agriculture, public health, education, and government services are moving ahead. From the beginning of these programs a coordinating committee was established and as a result duplication of effort after the first few months has been unknown in Honduras. United Nations technical assistance has been very limited and is not considered a problem at the present time.

The Honduran policy is to avoid seeking loans for the development work and to set aside a part of the budget each year to accomplish the purposes for which a loan would cover. The Galvez Government may be criticized by Hondurans for slowness in its development program, but it would appear that their approach is a more thoughtful one than is usually found in the Central American countries.

While economic nationalism has grown in Honduras during the last four years, it is not unexpected since a country which had for sixteen years found itself at the mercy of the Carias regime; and special arrangements with American companies, is to be expected to confuse license with freedom. Until the commercial laws of Honduras are revised and the tax laws reviewed, Honduras cannot be said to be a safe place for American investment except under the strictest terms and understandings. While the American companies have complained that their treatment is not as good as under Carias, nevertheless, their profits indicate that they are not suffering so bitterly as they might like the public to believe.

Part IV

In foreign affairs, the Galvez regime has maintained the Carias policy of neutrality in all Central American matters. At the same time it has joined ODECA, joined U.N. agencies, and has been reasonably firm with Guatemala.

Galvez reduced the Army to 2,600 persons all of whom are supposedly actually on duty and of that group a 400-man battalion is under training by a United States Military Mission. At the same time, a small United States Air Force Mission is training the small Honduran Air Force. The Honduran Government has just recently purchased $492,000 worth of military equipment in the United States and from time to time purchases airplane equipment.

A policy of neutrality is so deeply ingrained in Honduras that it is very difficult to get the Hondurans to participate actively in any multilateral organization where commitments for the future are being made. As a result, it is usually necessary for an education job to be done by our Embassy before Honduras will, with any enthusiasm, join in an international effort.

Part V

General Carias is 78 years old, 6 ft. 4 in., weighs about 260 lbs., and is noted for his mustache and his hulking shoulders. He is a quiet and reserved man with little or no humor and as the years have gone on he has tended to be more and more pleased with his position as an elder statesman of Central America.

President Galvez is a charming six footer with a rather sad face but a person of great good humor and intelligence. He was at one time a lawyer for the United Fruit Company and he has had to live down that part of his career. He is vigorous, stomach ulcerish and has, reputedly, bad kidneys. He is approximately 55 years old. He is the father of two sons both of whom reside in Honduras; and Roberto is the Chief of Civil Aviation. . . .

Julio Lozano is the Vice President of Honduras, Minister of Justice, Minister of Fomento, Minister of Labor, and a leading businessman. He is about 65 years old; is considered to be the strong man in the Administration, and Galvez defers to him in matters of economic policy but not on matters involving civil rights. Lozano is an extreme conservative, partially anti-U.S., and given to terrible temper tantrums during which he always resigns. Galvez lets him cool off and then sends his letter of resignation back to him. His presidential ambitions seemed to have been quashed for the moment and perhaps for always since he has never been a popular person and is likely to receive the candidacy only by extra pressure from either Galvez or Carias.

[Here follow additional comments about members of President Gálvez's cabinet and the Honduran Embassy in the United States.]

Section[5] *VI—Outstanding Problems*

1. *Inter-American Highway Agreement.*

Honduras has never ratified the Inter-American Highway agreement and has stated as its reason that the highway does not run through Tegucigalpa. It is anticipated that when the connecting road is finally built Honduras will probably sign the agreement

2. *Economic Nationalism Affecting American Interests.*

This situation has become more and more of a problem in recent years and is one which will have to be followed very closely by the Department and our Embassy in that country. It is my opinion that the Embassy could do more in the way of discussing these problems with officials of the Government and by that effort perhaps mitigate some of the nationalistic measures now under consideration.

3. *Strengthening Honduras' Anti-Communist Position and its Ability to Withstand Communist Propaganda and Infiltration.*

This speaks for itself and again requires an Embassy made up of officers able to be persuasive along these lines.

Section VII

At the present time we have a Consulate at San Pedro Sula on the north coast of Honduras serving the largest commercial city in the country and one growing more rapidly than any other. It is the communication hub of the area and it is in this area where communist seepage will be probably the greatest. It is my belief that the Consul-in-Charge, Mr. Pedersen,[6] has done a very good job and my only comment would be that his reports be sent directly to the Department instead of through the Embassy in Tegucigalpa.

Our Embassy in Tegucigalpa is not competently manned at the present time and is, therefore, becoming more and more unable to handle the problems enumerated above. Mr. Erwin was the originator of the "paradise" theory and firmly believes that by saying and doing nothing, his "paradise" may be maintained. While he has a very large knowledge of Honduras, and is popular with almost all Hondurans and many Americans, his administration of the Embassy and his activities regarding United States problems have not in my mind been satisfactory. During the interim period of five years when he was out of office,

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[5] At this point in the source text, the drafter began using the word "Section" to denote portions of the memorandum.

[6] Alfred J. Pedersen

Ambassador Daniels,[7] Ambassador Bursley,[8] and Byron Blankinship[9] demonstrated that Hondurans are as much receptive to persuasion and to education as are any other citizens and that major successes in policy could be achieved by some hard work. It is my belief that without a change in Ambassadors, and probably changes in the staff, no adequate representation in Tegucigalpa is possible.

Section VIII

If one believes that a "paradise" is not possible in Honduras at the present time it is necessary to think ahead to what may be forthcoming in that country. In my mind, Honduras is awakening from a long sleep and is beginning to understand that it has potentialities not yet exploited. I am fearful of the weaknesses of its Foreign Minister and its general tendencies to believe that one can live with communism on an equal basis. Therefore, I come to the conclusion that the job ahead for the United States is to protect our citizens from economic nationalism, communist infiltration in the form of men and ideas and, lastly, to preach the importance of emphasizing that Honduras is part of an area of major interest to the United States where communism must be faced and defeated.

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[7] Paul C. Daniels, Ambassador to Honduras, Apr. 10–Oct. 30, 1947.

[8] Herbert S. Bursley, Ambassador to Honduras, Dec. 18, 1947–Dec. 12, 1950.

[9] Between 1947 and 1952, Mr. Blankinship served as Second Secretary and then First Secretary of the Embassy in Honduras.

Editorial Note

On December 9, 1953, President Eisenhower authorized the initiation of negotiations with Honduras for the purpose of concluding a bilateral military assistance agreement. Representatives of the United States and Honduras undertook preliminary conversations during the early part of 1954; formal negotiations began on May 17, 1954. Pertinent documents are contained in Department of State file 715.5 MSP for 1954. A Military Assistance Agreement was signed at Tegucigalpa, May 20, 1954, and entered into force on the same date; for text, see TIAS No. 2975, or 5 UST 843.

Concurrent with the negotiations for the Military Assistance Agreement, representatives of the United States and Honduras negotiated a related bilateral military plan. The "Plan of the Governments of Honduras and the United States of America for Their Common Defense," initialed at Tegucigalpa, May 20, 1954, was transmitted to the Department of State under cover of despatch 505, from Tegucigalpa, dated June 2, 1954 (715.5 MSP/6–254).

715.5 MSP/1–554

The Officer in Charge of Central America and Panama Affairs (Leddy) to the Ambassador in Honduras (Erwin)

CONFIDENTIAL [WASHINGTON,] January 5, 1954.
OFFICIAL–INFORMAL

DEAR MR. AMBASSADOR: An important part of the problem created by Communist influence in Guatemala is the need to strengthen other Central American countries economically so as to increase their capacity of resistance to subversive infiltration. We have long been in total agreement with this principle, and taken many steps to implement broad programs in Honduras. At the present time, we are faced with a review of possibilities for enlarging and making more effective such programs in the economic sphere.

It is natural to think of TCA as the existing organization to carry out these objectives. The Department desires, however, to consult with you informally in order to obtain your advice as to specific lines along which we could propose increases to the present TCA program, on a significant scale. The subject of Honduran economic needs has received study by various agencies. What is now desired is an expression of your views, based on the overall picture which you have seen from your own observation and experience.

As a concrete suggestion, it appears to me that the road construction would probably be the primary channel of increased assistance. No industrial development appears feasible, and the field of technical assistance seems limited necessarily to agriculture, public health, education and government service. TCA has proposed a budget for fiscal year 1955 at $1,048,200 as against the 1954 budget of $855,900; and a corresponding increase to 38 American technicians as against 29. This does not represent an increase on the visible scale which is an objective of the present inquiry.

I hesitate to propose any precise project but in discussions here have come across the following possibilities: (1) aid in present construction of a highway from Tegucigalpa to a junction with the Inter-American Highway at Jicaro Galan on the western coast; failure to route the Inter-American to the capital city has so far blocked Honduran accession to the Inter-American Highway Agreement, so that aid on the present job might bring Honduras into the fold on this project. (2) Aid on the proposed road from Salvadoran border near Nueva Ocotepeque in Honduras to Santa Rosa de Copan, present terminus of the Honduran Western Highway, to provide a western road link with Puerto Cortes. In addition, it might be possible to interest El Salvador in extension of the road across the border and to run on to the Pacific side, so as to provide a cross-isthmus highway.

It is my understanding that President Galvez has been interested in the Western Highway. This might be a factor assuring Honduran cooperation on any extensive assistance the United States might be able to offer, which is now purely tentative.

As you will see from the foregoing, the purpose is not only to produce results economically beneficial to Honduras, but of such significance and tangible proportions as to be noteworthy by Guatemala. I have been directed to present this inquiry to you in these broad terms in the hope that your own observations and experience, as well as those of your staff, might be synthesized for suitable presentation by the Department. Any enlarged program of economic assistance will of course require substantial special appropriations, probably apart from TCA. If the Embassy should recommend specifically what projects might be undertaken by Honduras with United States financial assistance, with as exact as possible an estimate of the cost involved, the Department would be able to work out a "package plan" when, in the near future, an opportunity may arise for a high level review of our Central American problems.[1]

Sincerely yours, RAYMOND G. LEDDY

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[1] No reply to this letter was found in Department of State files.

815.062/5–1254

Memorandum by the Secretary of State to the President[1]

SECRET WASHINGTON, May 11, 1954.

Subject: Unsettled Labor and Political Conditions in Honduras

In view of the serious situation developing in northern Honduras and the implication of possible action by the United States, I thought it important that you receive a brief report on the area.

An estimated fourteen thousand United Fruit Company employees in Honduras went out on a general strike on May 5 demanding a fifty percent wage increase. The strikers are excellently organized, still avoiding violence, but massing in focal spots in the banana-growing area. The Honduran Minister of the Interior has strongly recommended to the President of Honduras an immediate declaration of martial law in the affected areas.

Concurrently there have been reports of suspicious movements of planes and men from Guatemala. A Guatemalan plane arrived in the area on May 1 without clearances and was detained. The Guatemalan Ambassador protested the detention of the plane and justified its sudden arrival by alleging that Guatemalan authorities are expecting an armed attack to be led by an exiled Guatemalan from Honduras and had felt the need to communicate urgently with its Consulate in Puerto Cortes. Following this, the Honduran Government considered closing the Guatemalan Consulate at Puerto Cortes and declared two Guatemalan representatives *persona non grata*.

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[1] Drafted by Mr. Ohmans.

Our Embassy in Tegucigalpa is watching the situation carefully, especially for any evidence of possible movements from Guatemala. In accordance with arrangements which have been developing for some time, negotiations between the United States and Honduras for a grant-aid bilateral military assistance agreement are scheduled to begin on May 17.

At the request of the Department of State, the Department of Defense is preparing a plan which might be put into effect for providing direct military assistance to Honduras, in the event that Government requests such assistance from the United States under Article 3 of the Rio Treaty[2] and also in the event that the United States Government is satisfied that there is conclusive evidence that Honduras is being subjected to an armed attack by Guatemala or any other State.[3]

JOHN FOSTER DULLES

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[2] Reference is to the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948; for text, see TIAS No. 1838, or 62 Stat. (pt. 2) 1681.

[3] The source text contains the following handwritten notation by President Eisenhower: "Foster—Is there any mechanism by which other members of American nations are kept informed and could ratify (in advance) whatever action we might take?"

815.062/5–1254: Telegram

The Secretary of State to the Embassy in Honduras[1]

SECRET PRIORITY WASHINGTON, May 12, 1954—4:27 p.m.

462. For Ambassador from Holland. Have discussed with UFCO and obtained agreement following plan which you should convey urgently but discreetly to Galvez as suggested approach present labor impasse.

President to summon imperiously to Tegucigalpa not only those specifically named labor leaders whose absence from the strike area would deprive strikers effective leadership but also specific company leaders. President to announce summons is for purpose orderly discussion and solution workers' legitimate demands. Once labor and company leaders in Tegucigalpa President should advise workers discussions will start under Government's or President's supervision immediately after they return jobs and that Government will see that constructive consideration is given them.

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[1] Drafted, approved, and signed by Director of the Office of Middle American Affairs Burrows.

My hope would be that with absence leaders from strike area under these circumstances danger of violence would cease and peaceful solution could be found.

Please cable your reactions. Answer your specific recommendations forthcoming shortly.

DULLES

715.00/5-1354

Memorandum by the Secretary of State to the President[1]

SECRET [WASHINGTON,] May 17, 1954.

Subject: Your question as to mechanism for informing other American Governments and obtaining advance approval of action we might take in case Honduras should call on us for aid under the Rio Treaty against armed intervention by Guatemala.

Under Article 3 of the Rio Treaty, the signatories are obligated to give immediate assistance to any State directly subjected to an armed attack. Thus, if such an attack occurs, and the attacked State requests assistance, the signatory states have in principle approved action in advance. In such a case, the Organ of Consultation meets "without delay" to examine the measures taken and determine whether others should be agreed upon.

In the absence of invocation of the Rio Treaty, there is no formal mechanism for consultation under it. However, informal exchange of information with the Parties to the Treaty is not only possible but generally desirable.

Advance information to other Parties to the Treaty of an intention on our part to provide *military* assistance in the event of an armed attack would create a precedent which might well create subsequent difficulties. Request for advance commitment for such assistance has, for example, long been an aspiration of the Uruguayan Government. However, we are informing other Parties to the Treaty of the seriousness with which we view the developments in Honduras and of the fact that we are following them closely in the light of inter-American treaty commitments, and in close consultation with the Honduran Government.

JOHN FOSTER DULLES

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[1] Drafted by Deputy Director of the Office of Regional American Affairs Jamison; cleared with the Assistant Legal Adviser for Inter-American Affairs Marjorie M. Whiteman.

715.001/5–2354: Telegram

The Ambassador in Honduras (Willauer) to the Department of State[1]

TOP SECRET PRIORITY TEGUCIGALPA, May 23, 1954—11 p. m.

362. Inform substance Central American Embassies. Following Embassy translation confidential memo May 23 from Foreign Office asking United States help under Rio treaty against Communism (full Spanish text airpouch):

[Here follows text of the referenced memorandum and related comments by Ambassador Willauer.]

Above memo drafted with President's personal participation, indicates clarity with which he sees danger Communism, and weakness resources with which he faces it. For most Hondurans, strike is still "purely Honduran". We must give him support he requires (or its equivalent). I believe this support, if properly coordinated with Embassy and President, can assist him in his major objective of splitting Communists from non-Communists. Memo also permits measures protection United States citizens within framework anti-Communist assistance Honduras.

I recommend: (1) I be authorized tell President earliest that American warships en route; (2) These ships tend engage in unpublicized manoeuvres well off Honduras pending developments; (3) Commander any such force instructed coordinate closely with Embassy.

WILLAUER

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[1] Repeated to Guatemala City.

815.062/5–2454: Telegram

The Secretary of State to the Embassy in Honduras[1]

TOP SECRET PRIORITY WASHINGTON, May 24, 1954—7:17 p. m.

489. Re Embtel 362, May 23,[2] you are authorized to inform President Galvez in confidence that American Naval vessels are presently en route Western Caribbean area adjacent to Honduras. Have arranged with Navy for Commander maintain contact with Embassy through the Department in accordance your recommendation #3.

Department suggests you recommend that the Government release to the press substantially all the information in the confidential memorandum under reference.

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[1] Drafted, approved, and signed by Mr. Leddy.

[2] *Supra.*

You may further advise President Galvez that Department has under closest study at highest level the threat posed by the Communist problem in Guatemala including his request for U.S. support under Rio Treaty in case of emergency. You will be immediately advised of Department's decision.

Navy states they are prepared to put ships into Honduran ports with two hours notice to evacuate American nationals.

DULLES

815.062/6-454: Telegram

The Secretary of State to the Embassy in Honduras[1]

SECRET PRIORITY WASHINGTON, June 6, 1954—10:22 p. m.

522. Holland spoke with Montgomery[2] fifth (urtel 419, June 4)[3] on basis Department's interest in strike settlement as essential to Central American stability in face of Guatemalan Communist threat (and possible OAS consultation) and your estimate anti-Communist leaders would benefit from higher UFCO pay scale than Standard's. Montgomery last night reported, after phoning Turnbull[4] La Lima, UFCO's offer 19%, 10% and 5% increases (which he said with added fringe benefits are substantially better than Standard's) likely be accepted and strike ended by ninth, but today UFCO not so optimistic due to another change in strike leadership midnight; that Bishop Capdevilla persevering in attempt get strikers accept above offer today, which offer UFCO would explain in flysheets, encouraging return to work which believed wanted by many employees. Holland gave Montgomery positive lines on back-to-work movement and impressed our serious concern strike continuance.

In continuing your close contact with officials UFCO and Govt, you should without intervening in specific issues discreetly exert influence on both toward prompt settlement on enduring basis, making clear to Galvez that we regard Honduran internal stability most desirable before OAS meeting. Your further recommendations for Dept's action will receive immediate attention.

DULLES

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[1] Drafted, approved, and signed by Mr. Leddy.

[2] Joseph W. Montgomery, vice president, United Fruit Company.

[3] Not printed (815.06/6-454).

[4] Walter E. Turnbull, vice president, United Fruit Company; Mr. Turnbull had a private residence at La Lima, Honduras.

Princeton University Library, Willauer papers

The Ambassador in Honduras (Willauer) to Claire L. Chennault[1]

TEGUCIGALPA, June 30, 1954.

DEAR GENERAL: Thanks for your letter of June 26.[2]

At the time of writing this it looks like the Guatemalan problem is all over but the shouting, plus some political maneuvering which is supposed to start today in San Salvador between Castillo Armas and the most recent Junta of Guatemalans who succeeded Arbenz.

For a while it was a very close thing but as you can expect, air power did the trick. In fact, it looks to me from what I know of the situation that about three P–47s and half dozen Cessnas which bombed by dropping blocks of dynamite (attached to hand grenades) did it.

Now if we can settle the Communist-inspired United Fruit Company strike here in Honduras maybe I can get away and have a chance to see you. Things have been mighty active here with a series of 48-hour days.[3]

This has to be all for now.

My very best to you and Anna in which Louise joins me.

Sincerely,

[WHITING WILLAUER]

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[1] Source text is unsigned.

[2] Not printed (Willauer papers)

[3] In a letter to Sherwood Waldron, dated June 9, 1954, Ambassador Willauer stated in part the following. "There is no question in my mind that international Communism is in effective control in Guatemala and that the very serious labor disputes which are going on currently in Honduras are in large measure attributabale to Communist influence." (Princeton University Library, Willauer papers)

Holland files, lot 57 D 295, "Honduras"

The Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Honduras (Willauer)[1]

SECRET OFFICIAL-INFORMAL [WASHINGTON,] July 16, 1954.

DEAR WHITEY: I am devoting this letter wholly to the subject of additional military equipment which you desire be added to the grant military assistance program we are conducting for Honduras. I have requested that answers be obtained to the other questions raised in your letter of June 7, 1954[2] and will send them to you as soon as they become available.

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[1] Drafted by Mr. Spencer.

[2] Not found in Department of State files.

We are awaiting a formal response from the Pentagon to your despatches Nos. 515[3] and 517[4] which recommended: (a) that the Honduran Army unit being provided with grant assistance be activated by early September; (b) that in order to accomplish activation by that date, Honduras be provided additional equipment, such as tentage, building hardware, transportation equipment, etc., which was not originally planned for the Honduran program; and (c) that four C–47 aircraft be included in the program and delivered at an early date. A copy of your despatch No. 551,[5] reiterating your earlier recommendation that Honduras be supplied with four C–47 aircraft and requesting that Honduras be provided 28 additional planes, has also been forwarded to the Pentagon. Yesterday we were told that we could expect to receive a Pentagon reply within the next few days. However, from the information provided us orally, I am sure that the Pentagon response will be negative. Some of the problems which make a favorable response to your recommendations difficult are enumerated below.

First, most of the items requested in your despatch No. 515, such as tentage, building hardware, etc., fall in the category of material defined as "defense support". The criteria used by the Joint Chiefs of Staff for determining types of military assistance which should be provided to foreign governments does not permit the provision of "defense support" items except in very exceptional circumstances. The theory is that such items, although they have a military application, are procurable from commerical sources. There are cases, such as Indo-China, Formosa, Greece and Turkey where we are providing defense support, but in each case separate funds for assistance must be obtained each year from the Congress.

Secondly, we have been advised informally by the Pentagon that the U.S. Air Force has no available C–47 or B–25 aircraft and that the only F4U–4's in the possession of the Department of the Navy are those which are now being used by naval reserve units.

Even if all of the aircraft recommended in your despatch No. 551 could be made available—and our understanding is that they cannot—the total estimated cost of providing them to Honduras, according to the Pentagon, would be at the very minimum about $1½ million. Funds appropriated for the Latin American program to date are insufficient to absorb an increase of that amount. The grant assistance program for Latin America has been justified to the Congress as a program which can be carried out in its entirety with approximately $100 million, and slightly more than that amount already has been appropriated to date. We are using this relatively small amount of money to provide assistance to ten Latin American countries, with some expectation that programs for El Salvador and Haiti may be commenced this year. The Congress is being requested to appropriate $13 million for FY 1955, but virtually all of these funds have been earmarked by the Pentagon for spare parts and training.

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[3] The referenced despatch, dated June 8, 1954, is not printed (715.5 MSP/6–854).

[4] The referenced despatch, dated June 11, 1954, is not printed (715.5 MSP/6–1154).

[5] Despatch 551, dated June 28, 1954, is not printed (715.5 MSP/6–2854).

In addition to the practical difficulties enumerated above, there are important considerations of a policy nature which would make it difficult to comply with the Honduran request. All of the programs we are conducting in Latin America are based on the principle that mutual defense assistance funds shall be devoted exclusively to assisting the other governments to activate units which they have agreed to prepare for hemisphere defense missions specified in secret bilateral military plans with the U.S. The Joint Chiefs of Staff in each case determined the type of foreign military units which would be useful to U.S. military forces engaged in the defense of the Caribbean area in time of war and defined the hemisphere defense mission which each unit should perform. For example, the secret military plan concluded with Honduras specifies that the Honduran infantry battalion will be activated for the purpose of assisting the U.S. to "protect the Panama Canal and the sea and air communications in the Caribbean Sea excluding the territorial rights of other countries". I realize that it is somewhat theoretical to expect a country such as Honduras, which has military forces barely sufficient to maintain internal order during an emergency, to provide material assistance to U.S. military forces engaged in defense of the hemisphere during an emergency. In fact, the Pentagon for a number of months strongly resisted our efforts to induce it to develop a hemisphere defense mission for Honduras, largely on the ground that Honduras, with limited U.S. assistance, would not be able to perform a hemisphere defense role. However, the Pentagon, after much urging on our part that a program would be desirable for political and psychological reasons, taking into account our objectives in Guatemala, finally did develop a hemisphere defense mission for Honduras and thus make that country eligible for grant assistance. To alter the basic concept underlying the Honduran program would require a decision at the very highest level of the government through some instrumentality such as the National Security Council. Moreover, it would be difficult to justify a change in the concept underlying the Honduran program without at the same time justifying a change in the concept underlying other Latin American programs, particularly in those cases where the armed forces of the other country are not as well oriented or equipped as they might be to meet the threat of subversion from within.

I believe it is clear from the foregoing that in order to comply with the Honduran request it would be necessary to urge the Pentagon to accord Honduras extremely exceptional treatment all along the line.

treatment which would require justification in the strongest terms to the Department of Defense, the NSC and the Congress. I am inclined to believe that such an effort, even if it had a chance of success, would not be warranted, particularly in view of the fact that the threat of aggression against Honduras has been very substantially reduced by the coming into power of an anti-communist regime in Guatemala.

I can appreciate what I take to be your basic position, namely, that by devoting additional funds to the Honduran program, compared with the vast amounts we are spending on military assistance world-wide, we might come very close to assuring ourselves that subversion, wherever it might appear, in Honduras, would be repressed effectively with armed force. However, our widely spread security commitments throughout the world have necessarily limited the nature and size of the Latin American program. In this connection, for example, the 32 aircraft requested for Honduras would represent almost one quarter of the total number of aircraft being provided to Latin American countries in the entire regional program. Moreover, we are providing no country in the program with as many as 34 aircraft. Brazil, for example, is receiving only 30.

Perhaps we can discuss this and other problems of mutual concern more fully during your visit here later this month.

Sincerely, HENRY F. HOLLAND

715.5 MSP/8-1054

The Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Hensel)[1]

SECRET [WASHINGTON,] August 10, 1954.

DEAR MR. HENSEL: Since the conclusion of a bilateral military assistance agreement between the United States and Honduras on May 20, 1954, the Government of Honduras has been the recipient of grant military assistance furnished under the provisions of Section 401 of the Mutual Security Act of 1949,[2] as amended. According to the secret bilateral military plan, signed by United States and Honduran military representatives, and according to a letter of November 25, 1953,[3] from the Assistant Secretary of Defense for International Security Affairs[4] to the Secretary of State, grant military assistance provided Honduras is being furnished for the purpose of assisting that country to prepare one infantry battalion for a hemisphere defense mission developed by the Joint Chiefs of Staff and defined in the bilateral military plan.

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[1] Drafted by Mr. Spencer; cleared with Assistant Secretary Holland, the Office of Middle American Affairs, and the Office of the Special Assistant to the Secretary for Mutual Security Affairs.

[2] Public Law 329, approved Oct. 6, 1949; for text, see 63 Stat. 715.

[3] Not printed (716.5 MSP/11-2553).

[4] Frank C. Nash.

After a careful on-the-scene study of Honduran army capability for developing an infantry battalion and using it in the performance of a hemisphere defense mission, the Acting Chief of the Military Assistance Advisory Group assigned to Honduras and the United States Ambassador are strongly of the opinion that such a unit would be unable to perform effectively and expeditiously any type of a military mission requiring the rapid movement of battalion troops and equipment from Tegucigalpa, the capital of Honduras, without military aircraft, which are not at present planned for inclusion in the program. The Ambassador and Acting Chief of the MAAG have pointed out that lack of accessible roads leading from the frontiers of Honduras to Tegucigalpa, where the battalion is stationed, would make it difficult, if not impossible, to move the battalion expeditiously by land to a number of locations outside and within Honduras where the battalion might be required to perform a defense mission. According to the Ambassador, the Acting Chief of MAAG is of the opinion that the minimum number of planes required to give the infantry battalion necessary mobility would be two C–47 aircraft. The Department of State is of the opinion that communist activity within Honduras, which has recently been manifested in labor strikes and riots, and that other types of communist activity in the Central American area, pose a threat to the stability of the present Honduran Government. It is of overriding political importance to the interest of the United States that such disturbances be prevented at this time. In the event of a communist inspired emergency within Honduras, the Department of State believes that it might be necessary to consider the desirability of permitting the Honduran army battalion to be used for resisting communist subversion, which is not, of course, the specific purpose for which the unit is being developed. It is conceivable that a type of emergency dictating such a course of action might arise during the Honduran national elections, which are to be held October 10, 1954.

In view of the considerations mentioned above, which are in part political, the Department of State strongly recommends that the necessary C–47 aircraft be added to the grant military assistance program to provide the Honduran army battalion the capability for rapid movement, and that the aircraft be delivered to Honduras at a date as far in advance of the Honduran national elections as possible. The Department of State recommends that, if necessary, appropriated funds required to include the planes in the Honduran program be made available by means of small adjustments in other Latin American country programs.

Sincerely yours,

ROBERT MURPHY

715.00/9-2454

The Ambassador in Honduras (Willauer) to the Department of State[1]

TOP SECRET TEGUCIGALPA, September 24, 1954.

No. 125

Attention: Under Secretary Smith; Assistant Secretary Woodward

Ref: Deptel 53, September 23, 6:00 p. m.;[2] Embtel 77, September 24, 1954.[3]

Subject: Honduran Electoral Situation.

Until this morning it appeared likely that a coalition would be formed between Reformists and Liberals. This is the latest in a series of possible coalitions which I have been actively encouraging in an attempt to prevent serious troubles concurrent with or after the October 10 Presidential and Congressional elections in Honduras. As of the moment negotiations have completely broken down but the on-again-off-again history of the last few weeks makes it possible to continue to have some hope, although I must admit that my hopes are currently at their lowest ebb.

The Carías Nationalists, the Williams[4] Reformists and the Villeda Morales[5] Liberals for the moment seem determined to proceed to the elections without coalition. Almost all Honduran and dipomatic sources continue prophesies of serious trouble. These range in degree of gloom from creation of the groundwork for a Guatemala-type ultimate Communist domination, through a Galvez "*golpe de estado*", to armed uprising by dissident Cariistas or Liberals or at the very least a chaotic situation with bloodshed and general disruption of politics and economics. For reasons stated below I am personally becoming less pessimistic than the average opinion.

I have been extremely active along two lines: First, I have been privately propagandizing for peace, pointing out affirmatively the opportunities for Honduras' growth in a peaceful atmosphere and negatively, the dangers of a flight of capital which might possibly include a decrease of the fruit companies' operations and would certainly mean that the incoming regime would inherit a world of headaches. Second, I have had extensive and frequent personal and frank talks with all three candidates and the principal leaders of their parties. These men have sought my advice and good offices in discussing various forms of coalition. All of the foregoing has been done at the direct request of

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[1] Drafted by Ambassador Willauer.

[2] The referenced telegram requested the Embassy's latest evaluation of the domestic political situation in Honduras (715.00/9-2354).

[3] Not printed (715.00/9-2354).

[4] Abraham Williams Calderón.

[5] Ramón Villeda Morales.

President Galvez and has been coordinated with him and Foreign Minister Valenzuela.[6] I believe that at the very least the net result of these efforts has been to decrease the likelihood of the most serious of the results prophesied above but my forecast for the future is still gloomy. The inherent selfishness of all three candidates and their cohorts and their very narrowness when it comes to considering their own political future makes the situation inherently one where a completely desirable result is impossible.

In exercising the influence of the United States in these discussions I am doing my utmost to conduct myself in a manner so that we can preserve sufficient good will among all political elements for the purpose of curative measures in any future troubles. I have been facilitated in this by having been called into negotiations involving every possible combination of coalition, and thus have prevented any truthful accusation of taking sides.

The latest possibility of a Reformist–Liberal coalition still appears the most likely of any but I repeat that the chances are not too good. The Reformists and Liberals are mainly kept apart by the personal stubbornness of candidates Williams and Villeda Morales and, indeed, all three candidates and their inner circles appear hypnotized by their own overstated predictions of sweeping success at the polls.

I believe most probably all three parties will go to to the polls and no party will achieve the absolute majority required by the Constitution. This will force the election into the new Congress which meets December 1. However, the Congress can only act if it has a two-thirds quorum. The decision before the Congress will be the choice of a President and Vice President from *two* out of the three candidates who poll the most popular votes. This requirement, plus the then known relative political power of the parties will tend to promote a coalition between the deputies representing the third candidate and one of the two other candidates. This will be especially true because the alternative to finding a quorum and deciding the matter in Congress is the choice of President by the Carías-dominated Supreme Court (presumably between the first and second place candidates) or Galvez' continuance in power. Galvez could possibly do this legally by declaring that the electoral laws prohibiting fraud, etc., had been violated.

Galvez is still privately considering a "*golpe de estado*" before or after the elections but he is personally profoundly averse to this course and will act only in the most extreme circumstances. I believe, however, that his continuance would receive great popular acceptance. Galvez, the man, as President would be more desirable than any of the other three candidates. However, his continuance would cause a period of uncertainty and of intense political activity before the permanent form of leadership could emerge. Thus, my preference is for a Reformist–Liberal merger. Among other things I feel that this would present the best possible climate for destruction of Communist elements. I believe this first because the Reformists and many good Liberal elements have avowed their intention to root out Communism and, second, because if the Liberal Party achieves partial participation in the Government it will be less likely to welcome Communist support than if it is left out in the cold completely.

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[6] J. Edgardo Valenzuela.

WHITING WILLAUER

715.5 MSP/10–3054

The Assistant Secretary of Defense for International Security Affairs (Hensel) to the Deputy Under Secretary of State (Murphy)

TOP SECRET WASHINGTON, October 30, 1954.

DEAR MR. MURPHY: Reference is made to your letter dated 10 August 1954,[1] recommending additional grant military assistance of two (2) C–47 aircraft to Honduras.

I have not discussed this subject with Mr. Wilson but I have received the views of the Joint Chiefs of Staff which follow:

"The Joint Chiefs of Staff, at the specific request of the Secretary of State and the Assistant to the Secretary of Defense (Special Operations) developed Western Hemisphere Defense missions for Honduras, El Salvador and Nicaragua for political and not military reasons. The basic purpose at the time was to indicate to Guatemala that non-Communist governments could receive grant aid and thus support the anti-Communist elements in Guatemala. Since then Guatemala has changed her form of government.

"The United States does not have C–47 aircraft surplus to requirements. To provide these aircraft to Honduras would require their purchase in the open market or a reduction in our inventory. Costs for the two aircraft plus spare parts for one year are estimated to be between $200,000 and $300,000. With limited funds available, this expenditure would require a considerable revision in the programs of other Latin American countries.

"Increased aid to Honduras could set a precedent upon which Nicaragua might base requests for additional assistance. That country is developing an infantry battalion with grant military assistance and can also claim the necessity for increased mobility. Similar requests could be expected from other Latin American countries for political purposes and such requests could cause embarrassment to the United States should a precedent be established in Honduras.

"The Joint Chiefs of Staff believe that specific tasks which Honduras could perform effectively would be of negligible military value to Western Hemisphere defense and do not justify further expenditures.

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[1] *Ante*, p. 1311.

"In view of the above considerations and from a military point of view, the Joint Chiefs of Staff do not recommend providing Honduras with two C–47 aircraft."

I fully support the views of the Joint Chiefs of Staff and do not recommend providing two (2) C–47 aircraft to Honduras, however, if you desire I am willing to discuss this subject further.

Sincerely yours,

H. STRUVE HENSEL

715.00/11–1254

Memorandum by the Director of the Office of Middle American Affairs (Newbegin) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

TOP SECRET [WASHINGTON,] November 12, 1954.

Subject: United States Policy in Connection with Honduran Elections

Discussion

Ambassador Willauer has returned to Washington to present his views on the political situation in Honduras and to participate in a reconsideration of our policy regarding the elections. Ambassador Willauer believes the United States policy should be:

A. To encourage the formation of a coalition government in Honduras with substantial Liberal party representation. If absolutely necessary, the Ambassador suggests that he might have to participate with the Ambassadors of other Central American countries in witnessing any agreement for a coalition.

Ambassador Willauer says that he would do this only after failure of an attempt to get the Papal Nuncio or the other Central American Ambassadors to guarantee the coalition by themselves had failed.

B. In the event that it is impossible to work out a coalition government, the Ambassador proposes that he be authorized by the Department to indicate to Galvez in the most discreet manner possible that the United States would view with favor his continuance in office for a year or two. This would avoid the chaotic situation which in the Ambassador's opinion would certainly result from the emergence of Carias as President without the restraining influence of a strong Liberal representation in his government or which would also result from the election of Villeda and his party.

Ambassador Willauer points out that there is already substantial public support for Galvez continuing in power. There is reason to believe Carias would accept such a development. Williams, of course, would be delighted since it would give him another chance to run for President. Surprisingly, Villeda Morales and the Liberal party are reluctant to agree to any coalition or to Galvez continuing in power. Villeda has the idea that he alone is the properly elected President of Honduras.

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[1] Drafted by Mr. Newbegin.

Recommendation

A. The Ambassador should not be a witness to any election arrangement in Honduras. This would be interpreted as our guaranteeing the arrangement and as undertaking an obligation which we would not be able to enforce if one party should back out. Moreover, such an action would create a precedent for similar action or request for action in other Central American countries.

B. It is further recommended that the Ambassador should not, officially or unofficially, seek to influence a coalition of parties, or the continuation of Galvez in the Presidency, as a solution for the political impasse now existing in Honduras but should leave this problem to the Hondurans to resolve by themselves. However, should the Ambassador be asked by President Galvez for an expression of the attitude of the United States toward his continuing in office as President, the Ambassador should indicate that we have had and would continue to have a high regard for the President's administration and would cooperate with him in the future in the same degree as in the past.

Finally, it does not seem either possible or desirable for us to try to evolve a fixed detailed policy with regard to the Honduran political situation at this time. That situation is fluid and subject to change at any moment. We should not set a course which will prevent us from taking advantage of any change that may occur.[2]

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[2] The source text bears the following handwritten notation, initialed by Assistant Secretary Holland: "Messrs Sparks & Woodward—Will you handle this for me."

A memorandum by Deputy Assistant Secretary Woodward to Assistant Secretary Holland, dated Oct. 26, 1954, reads as follows: "I recommend that, when you see Ambassador Willauer, you caution him to be very careful with respect to internal political maneuvering in Honduras and not consider any further use of the concrete persuasion except in the most extreme circumstances." (Mann–Woodward files, lot 57 D 598, "Honduras")

715.00/11–1854

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Sparks) to the Deputy Under Secretary of State (Murphy)[1]

TOP SECRET [WASHINGTON,] November 18, 1954.

Subject: Political Situation in Honduras

The purpose of the meeting scheduled for 3:00 PM this afternoon at the request of Assistant Secretary Holland is to review our policy in Honduras with respect to the electoral situation in that country.

The essential factors in it are as follows: None of the three parties—National candidate, former President Carias 1932–48; Reformist (an offshoot of the Nationalist party) candidate Williams; or

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[1] Drafted by Mr. Newbegin.

Liberal candidate Villeda Morales, received a majority in the final count of the ballots in the popular election of October 10, 1954; the result was 48% for Liberals, 31% for Nationalists, 21% for Reformists. Some responsible observers in Honduras consider that the Liberals did in fact have such a majority but were deprived of it through fraud.

In accordance with the Constitution it now devolves on the Congress in its session beginning December 5 to elect the President from the two leading candidates, Villeda Morales and Carias. While decision in the Congress (56 members) is by majority vote (29), a quorum of two-thirds (38) of the members must be present but there is no assurance that a quorum will be present on December 5. The present Congressional line-up is Liberals 23, Nationalists 22, Reformists 11. Failure of the Congress to act would normally throw the election to the Supreme Court which is believed to be controlled by Carias. The usual Latin American maneuvers and counter-maneuvers are taking place and unless some satisfactory solution is found (presumably based on a coalition) the situation may possibly degenerate into disorder and even into civil war. There is also the possibility that Galvez will take steps to remain in office in the event that a meeting of Congress is not held.

The main U.S. interest is to combat any possible increase in communist influence. Admittedly, our intelligence on communism and communist activity is inadequate. Admittedly, also, such activity exists, although there is no Communist Party as such in Honduras. The election of the reactionary Carias may well tend to perpetuate the very conditions on which communism thrives. On the other hand, although Villeda Morales has publicly taken a position against communism he did not discourage communist support in his campaign and the Honduran communists are alleged to be concentrating their political activity in favor of the Liberal party, which has been out of power in Honduras for 22 years.

Ambassador Willauer has both before and since the elections inevitably been consulted by the various political groups, seeking advice and support. Implementing an OCB decision[2] . . . Ambassador Willauer before the elections endeavored to induce one of the three candidates to withdraw and to form a coalition. This endeavor failed. Ambassador Willauer has of course been accused of intervening in the domestic political situation and each party has endeavored to exploit Ambassador Willauer's action for its own ends.

ARA has concluded tentatively on the basis of information now available that it would be inadvisable at this time for the Ambassador to take any further action to influence a political decision in Honduras. Until some new development arises which clearly points to where our interest lies, we should let Hondurans solve their problem on their own. It was agreed that if President Galvez should inquire as to our attitude toward his remaining in office, Ambassador Willauer should state that the United States has a high regard for his past administration. President Galvez' ability to remain in office is open to some question, in that he has just left Honduras for Gorgas Hospital in Panama, possibly for other reasons than need for medical treatment.

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[2] This decision has not been identified.

Ambassador Willauer, though disagreeing, accepts ARA's decision on the basis of his own relative lack of experience in Latin America. In view of the above, Mr. Holland would appreciate an expression of your views.

715.00/11-1954

Memorandum for the Files, by the Officer in Charge of Central America and Panama Affairs (Leddy)[1]

TOP SECRET [WASHINGTON,] November 19, 1954.

Subject: United States Position on Electoral Crisis in Honduras

After Ambassador Willauer had the opportunity to review and discuss with Assistant Secretary Holland, Deputy Assistant Secretary Sparks, and Messrs. Newbegin, Leddy, and Ohmans of MID, the present electoral crisis in Honduras, which original discussion was held on November 11, 1954, the memorandum of decision dated November 12, 1954[2] was gone over by Ambassador Willauer with Messrs. Sparks, Newbegin, and Leddy on November 17. Ambassador Willauer stated that he disagreed with the conclusion but accepted the instruction, largely on the basis of his own comparative inexperience in Latin America. Having repeated on the same afternoon this view to Mr. Holland, the latter suggested that a review with Deputy Under Secretary Murphy might be useful to assure Ambassador Willauer of full consideration of his views, and this was arranged on the afternoon of November 18 in Mr. Murphy's office.

Ambassador Willauer restated his disagreement with the conclusion in the memorandum of November 12, and said he felt conditions called for stronger action. Mr. Murphy indicated he was not convinced that a case was made out for a different course, and Ambassador Willauer was invited by Mr. Murphy to express his recommendations on present action. Ambassador Willauer recommended that, if no authority is to be given him to take measures, at least it is desirable that . . . . He stated that he would be speaking with Mr. Frank Wisner, Deputy Director of CIA, that afternoon; Mr. Murphy said that he personally would have occasion to talk directly with Mr. Allen Dulles, Director of CIA, in the next day or two, and would discuss this problem.

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[1] Drafted by Mr. Leddy, cleared with Mr. Murphy and Mr. Sparks.

[2] *Ante*, p. 1316.

It was emphasized by Mr. Sparks throughout the discussions with Mr. Willauer that ARA's present position is a tentative one, based on the information now available, and would be subject to constant review and modification on receipt of further information and evidence to be submitted by the Embassy at Tegucigalpa; he urged Ambassador Willauer to keep the Department fully informed of current developments. Ambassador Willauer agreed that this would be done on as rapid a basis as possible, but mentioned inadequacy of communications. When this was stated by him to Mr. Murphy, the latter indicated that steps should be taken by ARA to check into the efficiency of our communications set up with Honduras.[3]

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[3] In the left-hand margin of the source text appears a typed statement initialed by Mr. Murphy, dated Nov. 24, 1954, which reads in part as follows: "I discussed this subject with Allen Dulles today. He said that he had not had any conversation with Ambas. Willauer on this subject as perhaps Willauer had talked with Wisner regarding it. Mr. Dulles said that on the face of it, he was inclined to agree with the Department's position."

715.00/11–2754: Telegram

The Ambassador in Honduras (Willauer) to the Department of State

SECRET TEGUCIGALPA, November 27, 1954—11 a. m.

159. 1. When calling on Acting President Lozano 24th,[1] he confidentially handed me following unsigned memo plan of action, indicating he intends put this plan into operation if Congress fails convene. He did not indicate he would take any steps for or against successful convening of Congress; however, he thought exclusive Carias victory would provoke widespread violence. "In event National Congress does not convene December 5 as prescribed by political constitution, there would result breach of constitutional order.

"That being case, President Galvez or Acting President Lozano would be obliged to issue special decree assuming full powers of nation, until constitutional order restored by means Constituent Assembly elected to that effect in free and unfettered elections.

"Meanwhile in same decree President would create advisory body composed of all Congressmen elected last October, that is Nationalists, Liberals and Reformists. Members this body would act in advisory capacity and receive monthly payment equal that of Congressman.

"One of the main purposes that advisory body would be prepare draft new political constitution. Up to this date all political constitutions issued in Honduras have been drafted and approved by only single party thus resulting in failure. It is expected that a new constitution prepared and approved by representatives of the three political parties would have better chances of stability fulfill line at same time needs, desires and aspirations all people of Honduras.

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[1] On Nov. 16, 1954 Vice-President Julio Lozano Diaz assumed the position of Acting President of Honduras, upon President Galvez' departure from the country to seek medical attention.

"Proposed advisory body would serve both as nucleus and pattern for future national government in which the three political parties would participate in more or less equal basis."

2. Villeda and Williams have each told me he working for pact with other (which in essence similar Lozano plan above). Each says pact unworkable unless witnessed by United States Ambassador and that failure achieve such or similar pact will mean internal war.

3. I have carefully followed Department's instructions, saying I will under no circumstances witness or be present at signing political pact. Have added that if it would be any use to signers would be glad listen to their statements after they have completed pact, which would be in accordance my duty as reporting officer.

4. Would appreciate Department's comments or further instructions.

WILLAUER

715.00/11-2954: Telegram

The Secretary of State to the Embassy in Honduras[1]

SECRET WASHINGTON, November 30, 1954—8:07 p. m.

98. While aware difficulties faced in present situation Department disturbed implication Embtels 159[2] and 160[3] since subject interpretation we seeking influence political decision in Honduras which was specifically decided against during Washington consultation.

While it is correct to have informed Villeda and Williams you cannot be witness any political pact (Embtel 159) it also should be made clear that listening to their statements after pact completed does not involve US approval, disapproval or responsibility. Department hopes Mejia has not obtained impression US considers there only two possibilities, that Carias become President if Congress meets or Galvez (or Lozano) continue in office if it fails meet (Embtel 150 [*160*]). Department does not wish to exclude other solutions including assumption power by Liberals however unlikely that may now appear.

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[1] Drafted by Mr. Newbegin, cleared by Mr. Murphy, and signed by Mr. Sparks.

[2] Telegram 159, from Tegucigalpa, dated Nov. 27, 1954, is printed *supra*.

[3] In telegram 160, from Tegucigalpa, dated Nov. 29, 1954, Ambassador Willauer stated in part the following: "Gabriel Mejia, close confidante General Carias, called this morning at latter's instruction ask my position present electoral situation. I said I saw only two possibilities: Carias will be President if Congress meets; Galvez (or Lozano) will continue if Congress fails to meet. I said either these governments would enjoy United States support but would have profound responsibility to Honduras, United States and Hemisphere for maintenance internal order." (715.00/11-2954)

Department will appreciate your continuing keep it informed developments.[4]

DULLES

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[4] Telegram 170, from Tegucigalpa, dated Dec. 3, 1954, reads:

"Assure Department Mejia (Deptel 98) understood Embassy's mention 'two possibilities' meant mathematical probabilities and implied no United States preference. Am similarly confident Villeda and Williams understand Embassy readiness 'listen to their statements', after any pact they may complete, by no means implies US approval, since this made abundantly clear by statement Embassy would listen only for 'reporting' purposes." (715.00/12–354)

715.00/12–654: Telegram

The Ambassador in Honduras (Willauer) to the Department of State

CONFIDENTIAL PRIORITY TEGUCIGALPA, December 6, 1954—2 p.m.

176. Called on President Lozano[1] 10 a.m. today. He opened conversation expressing deep thanks my "valuable assistance maintaining peace Honduras" recent months. I congratulated him on smoothness his necessary assumption power effected this weekend.

Lozano said he had deliberately shown considerable military force, and in discussions with all three party leaders latter had agreed this best for maintenance public order. Lozano said he had taken steps assume power early this morning with full fore-knowledge and support Cariista and Reformist Parties and he especially appreciated "patriotic gesture" of Villeda Morales who called on him shortly after radio broadcast. Embassy understands that Villeda first asked Lozano if he intended establish truly "national" government (i.e. one assuring liberal participation) and on receiving affirmative answer gave Lozano public "*abrazo*" and assurance support. Lozano said he understands Villeda has issued liberal manifesto containing "two or three strong paragraph" about Lozanos assumption of power, but that he (Lozano) understands these necessary in order show Villeda's followers Villeda has not sold out.

Lozano said Galvez telephoned from Miami December 3 would return Honduras "some time this week", and wished Lozano luck. Lozano now expects Galvez return (presumably as private citizen) December 8 and this return confirmed by telephone from FOA director Hummel[2] still with Galvez Miami. Lozano deliberately expressed great admiration Galvez and obviously desires create impression he loyal Galvez.

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[1] On Dec. 6, 1954, Acting President Lozano Diaz decreed himself Supreme Chief of State, following the failure on the previous day of the Honduran National Congress to convene, because of lack of a quorum, to elect a president.

[2] John L. Hummel.

Lozano added he appointing Congressmen elect to Consultative Board today, and will add prominent (Conservative) Liberal Antonio Castillo Gega as member Consultative Board and President that body's Fizmaq Executive Board to which Lozano appointing two representatives each party.

Lozano said he had been questioned as to whether members Consultative Board would enjoy prerogative personal immunity as they would have if members Congress. He replied he had specifically omitted this guarantee, in order prevent any "Leftist" from acting or speaking under cloak immunity.

Lozano deeply pleased at maintenance peace, and embarking with apparent sincerity on "reconciliation of Honduran family"; says he has sent instructions all local commandants work toward this goal.

I told Lozano that although I would personally recommend US Government recognition, if necessary, and support his regime, I did not know whether there was in fact any problem of normal recognition and accordingly my visit could only be a personal one without implying any commitment US Government attitude.

I recall when consulting in Department there seemed considerable doubt whether any act of recognition required if Galvez continued, and personally feel that since Lozano initially took over legally when Galvez left country, the legal situation is same as if Galvez had continued. Recommend if possible avoid recognition issue but if not, strongly recommend rapid recognition because of obvious democratic machinery set up by Lozano, evidence widespread support, and probability that act and manner of Lozano's assumption power has saved Honduras from very nasty situation from which communism would have been sole gainer.

After calling on Lozano I telephoned Villeda extending personal congratulation his "patriotic gesture" of support Lozano. Villeda was obviously greatly pleased.[3]

WILLAUER

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[3] On Dec. 16, 1954, the United States decided to continue diplomatic relations with Honduras, thereby recognizing the government of President Lozano Díaz. For the text of a Department of State press release concerning this subject, dated Dec. 16, 1954, see the Department of State *Bulletin*, Dec. 27, 1954, p. 985.

MEXICO

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND MEXICO[1]

Mann–Woodward files, lot 57 D 598, "Mexico, 1952"

The Ambassador in Mexico (O'Dwyer) to the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)

CONFIDENTIAL MEXICO CITY, January 14, 1952.

DEAR TOM: Regarding your letter of January 5th, 1952,[2] the Embassy is also of the opinion that if the Migratory Labor Agreement[3] should expire, and if the flow of wetbacks[4] should continue, a relations problem with Mexico could result. I shall make it a point, on an appropriate occasion, to inform Sr. Tello that the President is making every effort to obtain control of the wetback situation, and that it is hoped that the Mexican Government may be able to redouble its efforts to prevent the flow of illegal labor to the United States.

As to the question of penalties for the employment of wetbacks, the Ministry has repeatedly informed representatives of the Embassy that Mexico will not agree to the extension of the present Agreement, nor to the negotiation of a new one, until the United States passes some sort of legislation to apply sanctions against employers of illegals in the United States. Whether Mexico will stand pat on this, we do not know.

We do know that it is of as much interest to Mexico as it is to the United States to maintain some sort of control over the use of Mexican migrant labor in the United States, and it is for this reason I feel that Mexico, when she is convinced that the Congress will not pass legislation for the application of penalties against the employers of illegals, will agree to negotiate a new Agreement. Otherwise, utter confusion will prevail, detrimental to the United States and Mexico.

Sincerely,

WILLIAM O'DWYER

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[1] Continued from *Foreign Relations*, 1951, vol. II, pp. 1470 ff.

[2] Not found in Department of State files.

[3] The Migratory Labor Agreement referred to here was signed by the United States and Mexico on Aug. 2, 1951. It specified the conditions under which Mexican laborers (*braceros*) could be brought into the United States to work for American employers, and it remained in force until Feb. 11, 1952. For the text of the agreement, see *United States Treaties and Other International Agreements* (UST), vol. 2 (pt. 2) p. 1940, or Department of Sate Treaties and Other International Acts Series (TIAS) No. 2331.

[4] "Wetback" is a colloquial term for a Mexican agricultural laborer who illegally enters the United States to work.

811.06 M/1-1752

Memorandum of Conversation, by the Deputy Director of the Office of Middle American Affairs (Rubottom)

CONFIDENTIAL [WASHINGTON,] January 17, 1952.

Subject: Mexican Agricultural Workers.

Participants: Mr. David Stowe, the White House;
Mr. Thomas C. Mann, Deputy Assistant Secretary for Inter-American Affairs, ARA;
Mr. R. R. Rubottom, Jr., Deputy Director, Office of Middle American Affairs, MID.

Mr. Mann and I called on Mr. Stowe at his request to discuss the United States–Mexico migrant labor situation. Mr. Stowe began by telling us that the prospects of getting prompt action by the Congress on the so-called penalty legislation had been dimmed by the decision in the House to give the omnibus immigration bill[1] priority over all other proposed legislation. There is, according to him, no chance of having the Walter Bill[2] brought up first and, while the omnibus immigration bill contains all of the Walter Bill's items except the anti-pirating clause, the debate on the omnibus bill will be lengthy and there is no assurance of its ultimate fate.

Mr. Stowe told us that, in the meantime, there was a reasonably good prospect that the legislation required to meet the President's program and to carry out his commitment to President Aleman might be passed by the Senate. He said that several representatives of the growers were keeping in touch with him and that they were working on their friends in the Congress to get the desired legislation passed at the earliest possible moment. There is a possibility that the bill will pass the Senate by February 1 or at least prior to the termination on February 11 of the 1951 agreement with Mexico.

President Truman is holding firm to his decision that there will be no new labor agreement with Mexico unless the Walter Bill or something similar is enacted into law but, according to Mr. Stowe, the situation will be re-examined should the legislation pass even one House prior to February 11, i.e., the Senate.

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[1] Presumably a reference to the bill which became the Immigration and Nationality Act of 1952.

[2] The Walter Bill (S. 1851, 82d Cong., 2d sess.) made it a felony to aid anyone entering the country illegally or to harbor or conceal an illegal alien. Debate on the bill began in the Senate on Feb. 5, 1952. It passed the Senate on Feb. 6, the House on Feb. 26, and was signed by President Truman on Mar. 20, 1952, becoming Public Law 283; for text, see 66 Stat. 26.

During the course of our conversation, Mr. Mann and I pointed out to Mr. Stowe the difficulties involved in allowing the present agreement to expire, thereby requiring that a completely new agreement be negotiated with Mexico in the event a decision is reached to seek another agreement. We mentioned that, while Mexico has already achieved in the present agreement most of what she was seeking a year or two ago, we could reasonably expect that she would seek even more if another agreement has to be formulated. It was further pointed out that the existence of a migrant labor agreement is one of the greatest deterrents to the entry of illegal wetbacks and that, without an agreement, a serious border problem would probably result from the increased illegal traffic which would almost certainly follow.

Finally, we indicated that from the standpoint of the United States bargaining position both at home in dealing with the growers and abroad in dealing with Mexico, it behooved this Government to reach a final decision on whether it is more in our national interest to try to maintain a migrant labor agreement, whether or not the legislation is passed, or to let the agreement expire and get along without an agreement regardless of the consequences.

Mr. Stowe expressed his understanding of all of the above considerations and said that regardless of the outcome of the migrant labor agreement, he felt strongly we should ask the Mexicans to do more than it has in the past to cut down the exit of potential illegal wetbacks from Mexico.

Editorial Note

In early January 1952, the United States invited Mexico to enter into military grant aid negotiations to be held in Mexico City. The Mexican Government accepted the invitation on January 23, 1952, but had difficulty agreeing with the United States on the wording of a suitable press release announcing the beginning of negotiations. At issue was the question of whether or not the Mexican Government would be willing to employ its military forces outside its borders in meeting a threat to the hemisphere. United States policy with regard to military aid was governed by the Mutual Security Act of 1951 which stipulated in Section 401 that United States assistance would depend on the recipient country's willingness "to participate in missions important to the defense of the Western Hemisphere." Mexican officials, however, insisted on a joint press release which gave far greater emphasis to developing Mexican defensive military capacity than to hemispheric defense. (Documentation on this subject is contained in Department of State file 712.5 MSP.) The statement finally released on January 25, 1952, simply stated that the two countries had agreed to begin negotiations on a bilateral military assistance agreement; for text, see Department of State *Bulletin*, February 11, 1952, page 211.

712.5 MSP/2-1252: Telegram

The Ambassador in Mexico (O'Dwyer) to the Department of State

SECRET PRIORITY MEXICO CITY, February 12, 1952—6 p. m.

1026. Held third mtg with Mex del today. (Depgam A–556, Jan 29)[1] First mtg, at request Mex del, read text US draft, explaining points when asked. Second mtg Mex del members army, navy, air and polit made gen statements. Then Rabasa, FonOff, explained Mex difficulties constitutionally and polit. At second mtg Mex del hedged when we tried nail down question could they accept principle use Mex forces in hemis def.

Today's mtg Mex del stated definitely could not accept our draft. Gave us for basis agrmnt written statement summary of which is:

1. Recognizing certain internatl commitments, nevertheless Mex shld do everything possible strengthen her capacity defend herself.
2. Because of Mex's geographic position US cannot remain indifferent to that capacity for defense.
3. Mexico is different from other LA countries.
4. Mex has asked US facilitate acquisition material and equipment perfect its mil industry. Better do that than include Mex among other LA countries.
5. In case an agrmnt shld be reached, it would in no way modify Art 20 Rio treaty.[2]

In order smoke out constitutional question and their constant ref Rio treaty we read: "(2) the task assignments . . . will become effective when both govts elect to use armed forces:

"(A) In conformity with the inter-Amer treaty of recip assist, either:

> "1. As a result of a request from an Amer state directly attacked, or
>
> "2. As a result of a decision by the organization of consultation that armed forces shall be used, or;

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[1] Department airgram A–556 authorized the Embassy in Mexico City to initiate the negotiation of a bilateral military assistance agreement based upon the U.S. draft of Nov. 20, 1951 (712.5 MSP/1–2952). An annotated copy of the draft is contained in file 720.5 MAP/11–2351. Counselor of the U.S. Embassy Culbertson acted as chairman of the U.S. negotiating team with Gen. Albert Jones heading the military group of three which participated in the conversations. Brig. Gen. Alberto Salinas Carranza, chairman of the Mexican Delegation, was assisted by Mexican Foreign Office representatives Oscar Rabasa and Ambassador Joublanc Rivas.

[2] Reference is to the Inter-American Treaty of Reciprocal Assistance (commonly referred to as the Rio Treaty), signed at Rio de Janeiro, Sept. 2, 1947, and effective for the United States, Dec. 3, 1948; for text, see TIAS No. 1838, or 62 Stat. (pt. 2) 1681.

(B) As otherwise mutually agreed, in a manner inconsistent with the internatl obligations of both govts,"

Making clear this language could not be used in basic agrmnt.

We suggested adjourning until tomorrow purpose OSR studying their proposal.

After gen mtg Gen Salinas, Rabasa, Gen Jones, Culbertson had frank talk. Said we understood present polit sit and could only accept their constitutional argument. To make clear our gen goal Jones gave brief picture hemis mil plan and intention use Mex forces. We indicated prelim view we could not accept their basis further discussion. Also indicated failure go along at this time might prejudice Mex position any further grants.

Rabasa [and] Salinas belabored fol points: Mex different from other LA countries; Mex is on outside in event conflict but to be of value Mex mil must be built up; Mex–US comm best means this matter.

We made clear present proposals and grant aid could not come under Mex–US comm.

We consider basis agrmnt as proposed by Mexs completely unacceptable and propose so inform Mex del tomorrow's mtg.

Since they cannot accept our draft and we can't accept their proposals feel we shld find most graceful way out.

While Mex del lays most emphasis on constitutional difficulty, we feel polit it may be more important to them. Opposition and other polit elements are attacking possibility of a mil agrmnt and such attacks may well have their effect. We feel PRI (the govt party) can ill afford opening itself to popular attack at this time. The uncertainties surrounding Avila Camacho and Cardenas[3] place PRI in a delicate situation, and if either or both shld throw their influence against the PRI candidate, who has only a modest public appeal, the election could go to elements probably left of present govt and probably less favorable to US.

If, as looks likely, no agrmnt can be reached now, we feel a formula shld be found by which the door can be kept open to agrmnt under future grants.

O'DWYER

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[3] Manuel Ávila Camacho was President of Mexico for the period from 1940 to 1946; General Lázaro Cárdenas for the period from 1934 to 1940.

712.5 MSP/2–1252: Telegram

The Acting Secretary of State to the Embassy in Mexico

SECRET PRIORITY WASHINGTON, February 13, 1952—7:14 p. m.

982. Strictly for your own info Dept concerned abrupt termination mil assistance negots wld have adverse effect upon negots other Latin

Amer countries and lend itself to intensification propaganda in Mex against US. Although Mex attitude reported urtel 1026 Feb 12[1] indicated no basis anticipate any favorable result you shld keep negots alive for time being using such means you consider advisable but avoiding any misunderstanding as to requirements for Mex participation this program. Suggest one means might be request for more detailed explanation Mex proposal.

Is it possible interpret Mex proposal as indication they hope bargain basic mil agreement in return for machinery for mil industry? Mex has requested DO priority rating for approximately one-half million dols worth machinery to complete and modernize mil factory. Request previously made through reimbursable aid channels under Section 408(e) MDAA[2] but present move wld have effect of Mexs acquiring it through immed manufacture on commercial basis. Am Section Joint Mex–US Defense Comm will hold mtg tomorrow to consider position it shld take re DO rating.

Further instructions will follow after receipt of info from you concerning result of mtg with Mexs held today.

Send air mail official text FonOff statement announcing initiation negots.

WEBB

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[1] *Supra.*

[2] The Mutual Defense Assistance Act (Public Law 329), approved on Oct. 6, 1949, provided under Section 408(e) that the President may sell military equipment to a nation which has joined with the United States "in a collective defense and regional arrangement." For text of the Act, see 63 Stat. 714.

Editorial Note

In telegram 1031 from Mexico City, dated February 14, 1952, the Embassy reported that it had informed the Mexican Delegation at the February 13 meeting that it had no authority to proceed on the basis of the Mexican proposals. The telegram further stated that the negotiations could easily be kept going for the time being. (712.5 MSP/2–1452) The Department replied in telegram 1013 to Mexico City, dated February 19, 1952, that the United States military negotiating team could depart for the United States on February 21, and that the Mexicans should be informed that the team was returning to Washington for consultation and further instructions. The Department continued that although it seemed obvious that there could be no constructive outcome from continuing the negotiations, it wished to consider the possibility of writing a full reply to the Mexican written statement, summarized in Mexico City telegram 1026 (page 1327). (712.5 MSP/2–1252) On February 20, 1952, in a meeting with Department officials in Washington, Mexican Ambassador Rafael de la Colina stated his belief that the failure to reach agreement on the military assistance question was primarily the result of Mexico's current presidential campaign. He said that the opposition had attempted to demonstrate that the negotiations proved the allegation that the PRI and President Alemán had sold out to the United States. He concluded that further negotiations should be postponed until after the elections. (Memorandum of conversation, February 20, 1952, 712.00/2–2052)

611.1294/9–2252

The President to the Chairman of the Civil Aeronautics Board (Nyrop)

[WASHINGTON,] September 8, 1952.

DEAR MR. CHAIRMAN: On May 22, 1946, I approved certificates for air services to certain points in Mexico issued to Eastern Air Lines, Braniff Airways, and Western Air Lines. On May 22, 1947, I approved an amendment to the certificate issued to Western Air Lines. No air service has been provided by any of the holders in the six years since the certificates were approved.

Since that time, this government has repeatedly attempted to work out a bilateral agreement with the Government of Mexico to establish a stable pattern of air transportation services between the two countries. The existence of the three outstanding but non-operative certificates has been a significant factor in the failure to work out a satisfactory bilateral agreement with the Mexican Government. It is clear that as long as there is no inter-governmental air agreement with Mexico and these inoperative certificates remain outstanding, a government other than our own will have the sole voice as to which, if and under what condition, any of these services will be initiated and the ability of this government to negotiate a bilateral agreement best adapted to the broad interests of the United States will be restricted.

Furthermore, the efforts by this government to develop a long term pattern of air transportation services between the two countries on a government-to-government basis have been and may further be prejudiced by private efforts to negotiate on an individual basis without regard for the overall air transportation interests of this country and in disregard of directions by this government not to engage in such conduct.

Because of these and other foreign policy considerations and in order to assure the necessary flexibility of action by this government in stabilizing and clarifying the air transportation relationship between the United States and Mexico, I take the following action:

1. I withdraw my approval of the three certificates for air service to Mexico issued to Eastern Air Lines, Braniff Airways, and Western Air Lines, described above.

2. I direct the State Department to take appropriate action, in accordance with the procedures followed in other similar negotiations, to institute negotiations with the Government of Mexico with a view toward effecting at an early date a fair and equitable bilateral air transportation agreement providing for a sound pattern of air transportation between the two countries and consistent with the best interests of the United States.

3. I direct the Civil Aeronautics Board, upon execution of such a bilateral agreement, to take all steps necessary and appropriate to accomplish at the earliest possible moment the pattern of air transportation contemplated by the bilateral agreement.

Will you please officially record the action that I have taken withdrawing my approval, and notify the airlines by immediately sending them copies of this letter.

Sincerely yours, HARRY S. TRUMAN

611.1294/9-2252

Memorandum by the Assistant Secretary of State for Economic Affairs (Thorp) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] September 22, 1952.

Subject: Negotiations with Mexico for an Air Agreement

Recommendations

1. You initiate discussion of this subject during your meeting with the President today.

2. You urge the President to permit you to select a wholly independent, proven negotiator, preferably Dr. George P. Baker.[2]

3. You permit me and one or two additional Departmental Officers concerned to brief you verbally prior to your meeting with the President.

Conclusions

1. High level political pressures both in this country and in Mexico may easily combine to bring about an agreement wholly unacceptable

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[1] This memorandum was drafted by Director of the Office of Transport and Communications Policy Barringer and cleared by Deputy Assistant Secretary of State for Inter-American Affairs Mann. A handwritten notation on the source text indicates that the Secretary saw the memorandum.

[2] State Department consultant and former Director of the Office of Transport and Communications Policy, 1945–1946.

to the Department, the Congress, the Civil Aeronautics Board and certain influential segments of the air transport industry. The only way that these pressures may be offset is by the appointment of a strong, knowledgeable, independent Chairman of the U.S. Delegation whose final personal recommendation would be supported by the President.

2. Two serious and far-reaching difficulties could flow from an unacceptable agreement:

(a) The whole pattern of U.S. aviation agreements with South American countries based upon regulated competition on reciprocally operated routes between major traffic centers would be jeopardized.

(b) Congressional protest, stimulated by certain disappointed U.S. air carriers would almost certainly take the form of a renewed effort to deprive the President of the power to execute agreements, at least in the field of air transport, without the advice and consent of the Senate.

An "Unacceptable" Agreement could have been obtained with Mexico at any time within the past six years. Such an agreement would recognize the concepts of exclusivity on major traffic-generating routes between the two countries or possibly of required stops to give undue competitive advantage to the airlines of Mexico.

An "Acceptable" Agreement with Mexico, based upon the principles espoused by the United States throughout the world, has eluded us, solely because of the continued Mexican insistence upon their "right" to at least one monopoly on an important route (i.e. Los Angeles–Mexico City) and on other devices designed to give competitive advantage to Mexican carriers.

The Present Situation arises from the President's action, taken on his own initiative, in his letter of September 8, 1952 to the Civil Aeronautics Board (Annex A)[3] and his memorandum to you asking the Department to arrange for immediate inauguration of negotiations. The Department complied by sending instructions to Ambassador O'Dwyer (Annex B)[4] to seek agreement that the negotiations should be undertaken in the near future *in Washington*. On Friday, September 19, word was received from Embassy, Mexico that the Mexican Government had informally agreed subject to holding the negotiations in Mexico.

Need for a strong independent Chairman of the U.S. Delegation

The three U.S. carriers, Eastern, Braniff and Western whose inoperative certificates were revoked by the President's action of September 8 (Annex A), will undoubtedly be extremely and justly critical of the Department and the Administration if the negotiations are not conducted by a Delegation which would fully appreciate the consequences of an "unacceptable" agreement on the international civil aviation policy of this Government.

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[3] Printed as separate document, *supra*.

[4] Department telegram 383 to Mexico City, Sept. 12, 1952, not printed (611.1294/9–1252).

The U.S. Chairman of the next negotiation should be a person who is to the maximum extent possible free of pressures but at the same time thoroughly informed concerning the nature of our Mexican difficulties and of the various aspects of U.S. civil aviation policy. Someone with these qualifications, independent of the Government, would be in the best position to evaluate the differences arising in the new negotiations and to reconcile the conflicting political objectives.

There are few men of these qualifications available who also enjoy the confidence of the President as well as of the airlines concerned. Outstanding among these is Dr. Baker, whom you know. It is believed that Dr. Baker would have the knowledge, forcefulness and courage to offset the pressures anticipated.

Concurrence of Civil Aeronautics Board Chairman, Donald W. Nyrop

The action recommended to you was discussed yesterday with Mr. Nyrop who fully shares our apprehension and concurs with the recommendation that you urge Dr. Baker to chair the U.S. Delegation. While Mr. Nyrop carefully stated that he was expressing a personal view and could not speak for his Board, he assured that he will advise the President along the same lines. He further stated that he would be glad to discuss this problem with you at your convenience.

The Secretary of State has full legal authority to negotiate as he deems best: Section 802 of the Civil Aeronautics Act of 1938 provides:

> "Sec. 802. The Secretary of State shall advise the Authority of, and consult with the Authority concerning, the negotiation of any agreements with foreign governments for the establishment or development of air navigation, including air routes and services."

611.1294/9–2252

Memorandum of Conversation, by the Director of the Office of Transport and Communication Policy (Barringer)[1]

CONFIDENTIAL [WASHINGTON,] September 22, 1952.

Subject: Mexican Air Agreement

Participants: President Truman
Secretary Acheson

The Secretary raised with the President the question of the negotiation with Mexico for an air transport agreement, which negotiation the President had directed in his memorandum to the Secretary dated September 8.[2] The Secretary told the President that he was anxious to obtain his thinking on this matter in order best to carry out his wishes. The President stated that for a number of years he had been most anxious to complete a satisfactory air agreement with Mexico and that he had reason to believe that President Aleman was equally anxious to complete such an agreement before he left office in December. The President further stated that he had taken the action to suspend three of the certificates issued in 1946 to US air carriers in order to create a more favorable situation for this negotiation.

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[1] Secretary of State Acheson verbally passed the substance of this conversation to Mr. Barringer at a subsequent meeting which also included Messrs. Thorp, Mann, and J. Robert Schaetzel, Special Assistant to the Assistant Secretary of State for Economic Affairs.

The Secretary pointed out to the President the Department's ideas with respect to an acceptable vs. an unacceptable agreement. The President emphasized that he wanted competition on the major routes and could not accept any agreements which would give an exclusive right on such routes to a Mexican carrier.

Pointing out to the President the controversial character of the proposed negotiation and the various pressures which might combine in an attempt to force the United States to concede to certain anticipated Mexican demands and thereby produce an unacceptable agreement, the Secretary urged that the President permit him to select a competent knowledgeable negotiator, independent of Government, who could then best serve all the United States interests involved. The President assured the Secretary that it was his (the Secretary's) responsibility to conduct the negotiations and that he should certainly be free to select anyone he considered would be helpful. In response to the Secretary's suggestion that Mr. George P. Baker would be ideally suited, the President voiced his complete confidence in Mr. Baker. The President then stated that his principal adviser in this matter was Mr. Donald W. Nyrop, Chairman of the Civil Aeronautics Board, and urged the Secretary to meet with Mr. Nyrop as soon as possible, making a note that Mr. Nyrop should be called to meet with the Secretary.

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[2] This memorandum was not found in Department of State files. However, White House assistant David Stowe notified the State Department that President Truman's letter to Mr. Nyrop dated Sept. 8 (p. 1330) directed the Department to initiate air transportation negotiations with Mexico. (Memorandum of conversation, by Jeffrey C. Kitchen, Special Assistant to the Secretary of State, dated Sept. 10, 1952, 611.1294/9–1052)

611.1294/9–2452

Memorandum of Conversation, by the Director of the Office of Transport and Communication Policy (Barringer)

CONFIDENTIAL [WASHINGTON,] September 24, 1952

Subject: Mexican Air Agreement

Participants: Secretary Acheson
Donald W. Nyrop, Chairman, Civil Aeronautics Board
Mr. Thorp, E
Mr. Mann, ARA
Mr. Schaetzel, E
Mr. Barringer, TRC

Pursuant to the President's instructions, Mr. Donald W. Nyrop today met with the Secretary and the above-listed Departmental officers. Mr. Nyrop reviewed briefly the past negotiations with Mexico for an air agreement, including some detail on the negotiation which he conducted in December 1951. He pointed out that each negotiation had failed because of the Mexican insistence on the retention for a Mexican carrier of exclusive rights on the route from Los Angeles to Mexico City. He pointed out that this route was operated by CMA, a Mexican carrier, approximately 40 percent of the capital of which was owned by Pan American Airways. The Mexican interests in this company have been among the most important political supporters of President Aleman.

Mr. Nyrop reviewed in detail the various routes between the United States and Mexico which are now being operated, and those additional routes which might also be exchanged in an agreement acceptable to the United States. Mr. Nyrop indicated that he hoped the CAB, in making its finding, would indicate that the minimum position for the US would incorporate equal competitive opportunity on the three major routes to and from Mexico City: Los Angeles–Mexico City; Dallas–Mexico City; and New Orleans–Mexico City. He suggested that the Board might agree to a temporary one or two-year delay in the inauguration of United States service either from Los Angeles or from New Orleans in order to give a Mexican carrier an opportunity to develop its service. It appeared that, if the general basis outlined by Mr. Nyrop were to be incorporated in the Board's opinion, it would meet the President's expressed desire for competition on the major routes.

Mr. Nyrop then stated that the Civil Aeronautics Board would recommend to the Department on or before October 3 a maximum and a minimum United States position. It was agreed that this position would be discussed and then approved by the President prior to the inauguration of negotiations. In closing, Mr. Nyrop requested that the Secretary again confirm with the President his preference for having these negotiations conducted by Mr. Baker, inasmuch as Mr. David Stowe had suggested that the negotiations might be appropriately handled by the Ambassador, assisted by himself.

Editorial Note

In telegram 522 to Mexico City dated October 8, 1952, the Department reported that one or two of its senior representatives would be able to arrive in Mexico City on October 15 for exploratory conversations with Mexican officials to determine whether a basis for an aviation agreement in fact existed. The telegram requested that the Embassy advise the Department if this schedule and general approach would be acceptable to Mexico (611.1294/10–852). In reply, Paul Culbertson, Counselor of the Embassy, telephoned from Mexico City on October 10 that Mexican Foreign Minister Tello had agreed to tentative informal conversations on October 15, noting that both he and Ambassador O'Dwyer were disappointed in the implication that the Ambassador would not be designated to negotiate this agreement with the Foreign Minister. (Memorandum of conversation, dated October 10, 1952, 611.1294/10–1652)

611.1294/10–1252

Memorandum of Conversation, by the Secretary of State[1]

RESTRICTED [WASHINGTON,] October 12, 1952.

Subject: Mexican Air Negotiations

Participants: The President
The Secretary of State
Mr. David Stowe, Administrative Assistant to the President
Mr. George P. Baker, Consultant, Department of State
Mr. Donald W. Nyrop, Chairman, Civil Aeronautics Board
Mr. J. Paul Barringer, Director, Office of Transport and Communication Policy, Department of State

In accordance with the President's request of September 25[2] I arrived at the White House at 10:00 a.m., Sunday, October 12.

Chairman Nyrop laid before the President a map graphically depicting the recommendations of the Civil Aeronautics Board for a pattern of air routes to be operated by United States and Mexican air carriers under the proposed agreement. The position presented was identical

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[1] Drafted by Mr. Barringer with the assistance of Francis E. Meloy, Jr., Assistant to the Director of the Executive Secretariat.

[2] On Sept. 25 Secretary Acheson had met with the President to report on recent developments regarding the aviation question. At that time they agreed to meet again on Oct. 12. (Memorandum of conversation, by the Secretary of State, dated Sept. 25, 1952, 611.1294/9–2552)

BEST AVAILA

with that outlined in paragraph A2 of the briefing memorandum from E dated October 11.[3] Before Mr. Nyrop had completed his presentation, Mr. Stowe questioned him and the Department's representatives on the economic justification for two United States and one Mexican route between New York and Mexico City, two via New Orleans and one via Dallas, particularly in light of anticipated competition on this segment by European and United Kingdom carriers operated as extensions of their routes across the North Atlantic.

After completion of the presentation, discussions centered upon the essentiality of obtaining equal competitive non-stop rights between Los Angeles and Mexico City. It was the President's expressed desire that equal competitive opportunity on this route be a primary condition to any agreement. There followed discussion of the difficulties with other countries that would result from the grant to Mexico of exclusive rights between Mexico City and Miami and between Mexico City and New Orleans. Comparable concessions have consistently been denied to several other Latin American countries with whom the United States is currently negotiating commercial air agreements. It was pointed out that it might be possible for the United States to grant a monopoly route between Mexico City and Miami but that the additional grant of a similar monopoly route to New Orleans would have an extremely adverse effect on our relations in this field with these countries as well as establishing an undesirable precedent for requests from other countries throughout the world.

I suggested that no decision be reached on these concessions until we are able to ascertain from the Mexican Government the exact nature of their demands in the negotiations. The President agreed that this particular question should be reviewed after an initial exploratory conversation with Mexican officials. It was further agreed that only President Aleman would be able to supply the necessary definitive information as to the exact nature of the Mexican requests.

I then suggested to the President that we should address ourselves to the best way in which an initial approach could be made to President Aleman and recommended that Mr. Baker and Mr. Stowe talk to President Aleman as soon as a meeting could be arranged. Mr. Baker outlined in some detail the procedure in which similar negotiations had been carried on in the past indicating that they usually extended over a period of several weeks, if not months, with careful consideration by all agencies concerned of offers and counter offers. He did not think it entirely desirable to make any determinations that would involve deviation from past United States principles followed in air route negotiations unless they were hammered out in arm's length bargaining and subjected to full consideration and debate.

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[3] Not found in Department of State files.

It was agreed that the Department would undertake to ascertain if a meeting could be arranged with President Aleman prior to Wednesday evening, October 15, at which time Mr. Stowe would be required to accompany the President on a trip.[4]

Discussion of this phase of the problem was concluded. I remained with the President to take up other matters.

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[4] The Embassy in Mexico City was unable to arrange a meeting before Oct. 15 because President Alemán planned to depart Mexico City on that day. Consequently, Stowe requested State Department officials to try to set up a meeting with President Alemán after Nov. 4. (Memorandum by Deputy Assistant Secretary of State for Economic Affairs Linder to the Secretary of State, 611.1294/10–1652)

611.1294/10–2752

Memorandum of Telephone Conversation, by the Director of the Office of Middle American Affairs (Rubottom)

CONFIDENTIAL [WASHINGTON,] October 27, 1952.

Subject: Mexican Aviation Negotiations

Participants: Mr. David Stowe, Administrative Assistant to the President
R. R. Rubottom, Jr., Director, MID

I telephoned Mr. Stowe on Saturday afternoon to relate to him what I had just been informed by the Officer in Charge of Mexican Affairs, Mr. William Belton, who had just returned from Mexico, to the effect that the key official in the Foreign Office on policy matters affecting Mexico and the U.S., Mr. Rabasa, had indicated to Mr. Belton that there was little chance that an aviation agreement could be concluded in the short period between the U.S. election on November 4 and the inauguration of the new Mexican President on December 1. Mr. Rabasa told Mr. Belton, however, that any U.S. representative who comes to Mexico to discuss aviation will be cordially received.

Mr. Stowe expressed little interest in the above information and said that he realized that whether or not there would be an aviation agreement depended almost entirely on President Aleman. He said that if the latter wants an agreement there can be one in 24 hours. He said that if President Aleman is not willing to concede on the west coast monopoly run, then there would not be any agreement.

I gained the impression that Mr. Stowe was planning to go to Mexico around November 10 or 11 come what may, providing President Aleman is willing to receive him.

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611.1294/11–552

Memorandum of Conversation, by the Secretary of State

SECRET [WASHINGTON,] November 5, 1952.

Subject: Mexican Air Negotiations

I expressed my doubts to the President as to the wisdom of this Administration, in its closing weeks, attempting to reach an air agreement with the Mexican Administration, also in its final weeks. The President agreed with my concern about this and said that the best thing to do was to drop the matter altogether. I took it that this was his considered decision, and I think we should act upon it as such.

Finally, the President saw no reason why I should not return to New York, holding myself ready to return here on a call from him.

Cabot files, lot 56 D 13, "Mexico"

The Assistant Secretary of State for Inter-American Affairs (Cabot) to the Ambassador in Mexico (White)

CONFIDENTIAL [WASHINGTON,] August 12, 1953.

DEAR FRANCIS: I was sorry not to have talked to you at greater length regarding the Department of Justice's proposal to use Army and National Guard forces to stop the wetback traffic across the California frontier. Since I have every reason to suppose that telephone conversations between the Embassy and officers of the Department are recorded and since I do not wish the Mexican Government to know all the gory details about this matter, it seemed to me that we had better handle it by an exchange of letters, the more so as the Department of Justice will not act for some days at least. I should perhaps add that practically everything I said to you was aimed at the recording machine rather than at you.

I do not, I am sure, need to tell you that the Department of Justice as well as this Department have been increasingly concerned at the enormous number of wetbacks who are slipping into the United States, nor do I need to point out to you how undesirable this traffic is. In California the situation has become particularly bad in that the wetbacks are resorting to violence and the people of Southern California are getting both alarmed and fed up. In other words, whether we like it or not something has got to be done about it. Interestingly enough, the same complaints do not come from Texas despite the fact that the wetback traffic there is also heavy. The Texas farmers seem to favor the traffic despite its inconveniences.

You are also familiar with the many representations which the Mexicans have made to us asking us to take effective measures to stop the traffic of wetbacks. It is true that the measure they have normally

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requested is that we crack down on the farmers employing the wetbacks. Practically speaking this is not possible for political reasons and, therefore, if we are going to do anything at all, it must be something else.

We recognize that the use of the military to stop the wetback traffic will almost certainly provoke incidents and that those incidents will react on our relations with Mexico. I am sorry that this is the case. Nevertheless any enforcement measures we take, or indeed any lack of enforcement measures we take, are bound to lead to incidents due to the tremendous pressure of the wetback movement. Under these circumstances and recognizing that we face a choice of evils, it seemed to me better to seize the bull by the horns, see how effective military measures could be on one section of the frontier, stimulate both sides to demand a mutually satisfactory *bracero* agreement and do what we can to convince the Mexican Government that our measures were at least in part due to their pressure. It was precisely to get the fairest possible opinion on the latter point that I talked to Brownell as reported in my memorandum of conversation of August 8.[1]

I would greatly appreciate a detailed expression of your views. Probably we could not stop the proposed measures even if we should make a last ditch fight of it, but naturally I should like to do what is right even if it is not likely to succeed. I shall therefore await your views with the keenest interest.[2]

With every good wish,

Very sincerely yours,

JOHN M. CABOT

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[1] Not printed.

[2] The source text bears the following handwritten postscript: "It seems to me pertinent also that the Mexicans are reported to use troops to patrol their side of the border."

811.06(M)/8–1453

The Ambassador in Mexico (White) to the Secretary of State

PERSONAL AND CONFIDENTIAL
VERY URGENT

MEXICO CITY, August 14, 1953.

DEAR FOSTER: When I came to Mexico, I determined not to add to your burdens with matters here unless they were of such importance or gravity that you should know about them. Such a situation has now arisen and it is of such importance to you personally, to our relations with Mexico, to our relations with Latin America as a whole, and to the Republican Party that I bring it to your attention.

At 5:30 o'clock on the afternoon of August 11th, I learned that the Attorney General, Mr. Brownell, was proposing to use Federal troops

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and the National Guard to stop the wetback traffic across the California Border and that a proclamation to that effect had already been drafted. Apparently, some of the authorities in California had presented the matter to him in such a way as to upset him and make him feel that some drastic action should be taken.

The *bracero* wetback problem is a difficult one but the way to handle it, in my opinion, is definitely not by the use of force. It seems to me that such a policy is just as unimaginative and negative a policy as it was to intervene with troops years ago in some of the Caribbean and Central American Republics. It took me from 1922 to 1926 to get the Marines out of Nicaragua. I was then sent to Spain for a few months, and when I returned, I found the Marines back there and it took from 1927 to 1933 to get them out again in an orderly way. Having lived with that situation for eleven years, I know what such a blunder can entail in the work of the Secretary of State and of the Department. I feel that the expedient of calling out Federal troops and the National Guard in the wetback case on the Mexican Border would be an even more tragic blunder than was the sending of Marines to Nicaragua. Mexico is so much more important and is the keystone of all our relations with Latin America. The effect of such action on our relations would be disastrous.

I have been working closely with Señor Padilla Nervo, the Minister for Foreign Affairs, since I have been here to make the meeting at the Falcon Dam[1] a success. I was much gratified last week when he told me spontaneously and in all sincerity that the Mexican Government really wants to make the Falcon Dam meeting an outstanding demonstration to the rest of Latin America of the mutual friendship, understanding and regard that exists between the United States and Mexico. He and other Mexican officials are fully cognizant of the special role that Mexico plays in our relations with Latin America and have told me so. Other countries in Latin America look to our relations with Mexico as a barometer with which to judge our whole Latin American policy. A number of the Latin American Ambassadors here have told me the same and some even implied that watching that situation was their most important duty here.

With troops on the Border shooting at Mexican citizens, our relations will so deteriorate that I am afraid the Falcon Dam meeting would not be the auspicious affair we hoped for it and it might even have to be abandoned.

From comments that have come to me from several sources, one of the points which I brought out in an impromptu talk at a luncheon given for me to meet Mexican bankers was my contrast between the Iron Curtain frontier of other countries and the Falcon Dam on the United States-Mexican frontier. We won't be able to make capital out of that if we have bayonets and muskets on our frontier.

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[1] President Eisenhower and President Ruiz Cortines of Mexico were scheduled on Oct. 19, 1953, to dedicate Falcón Dam on the Rio Grande, 75 miles south of Laredo, Texas. The meeting was arranged at the Department's initiative in May and June 1953.

Despite certain newspaper comments to the contrary, relations with Mexico are now on a friendly and sound basis of cooperation. Shootings along the frontier can completely change all that. If troops are sent there to keep the wetbacks out, how are they going to do it? Not by giving them a pat on the back and asking them politely to go home. If their job is to keep the wetbacks out and they see some fellow trying to sneak across, somebody is going to use his gun. Even if it is only a warning shot, he will be shooting south and somebody is going to get hurt. Incidents will inevitably happen.

When the Simpson Bill[2] was under consideration in the Congress, some of the unfriendly press carried headlines that the United States declared war on Mexico. What would it be when troops are called out to man the Border and also when incidents occur? Even the friendly and important press will certainly carry most invidious headlines and editorials.

This situation will be exploited throughout Latin America. It will be seized on by the Communists for anti-American propaganda here, in Latin America and in the rest of the world. The Argentine Embassy here is spending very considerable sums of money on anti-American propaganda. This will be hand-tailored for their purposes. Also the National Guard will undoubtedly contain many members whose homes are near the Border and who often speak in most derogatory terms of the Mexicans. They are apt to be very trigger-happy and will supply further fuel in an anti-American campaign.

I understand that some of the reasoning back of this move is that many representations have been made to us by the Mexican Government asking us to take effective measures to stop the traffic of wetbacks and that military measures on the frontier would stimulate both sides to demand a mutually satisfactory *bracero* agreement.

The Mexican Government in a purely informal way in conversations regarding the *bracero* matter has asked that we do something to prevent the wetbacks coming into the United States. This is because they contend that the wetbacks depress the price of labor in the United States and hence the price that we pay under our contracts with the *braceros*. There has never been any demand that Federal troops be called out or the National Guard so far as I am aware. Nothing of the sort has been remotely suggested to me since I have been here and I have consulted all members of my staff concerned with the matter and no such representations have ever been made to them. If any have been made by the Mexican Embassy in Washington to the Department of State, this Embassy has never been advised thereof. What the Mexicans are interested in, I repeat, is higher wages for their *braceros*. They have asked that we pass a law making it illegal for anyone in our country to employ an illegal immigrant. This, of course, would be out of the question politically at home as it would make every individual responsible for enforcing our immigration laws and these immigrants get right up to the Canadian Border at Detroit and other places. It has been pointed out to the Mexican Government that that is not the solution. There is a very long frontier between our two countries and the Border Patrol, from economic necessity, cannot be sufficient to control the matter. The Mexicans could help on their side and should do so because these people are not only violating our immigration laws, but they are violating Mexican law in leaving the country without the proper permits.

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[2] The Simpson Bill (H.R. 5894, 83d Cong., 1st sess.), introduced by Pennsylvania Representative Richard M. Simpson, provided for mandatory curbs on the importation of certain commodities which threatened or caused injury to U.S. producers. The bill, favorably reported out of the House Ways and Means Committee on July 8, 1953, was sent back to committee and effectively killed by a majority vote of the House on July 23, 1953.

There are few railway and highroads leading from the center of Mexico to the Border and when the Mexicans know that on these few routes, thousands of people are traveling to the Border to leave Mexico illegally and enter the United States illegally, the Mexicans could take precautions, if they would, to prevent their getting to the Border where they can fan out over the country and cross the frontier with relative facility. The Mexicans' reply to that is that a Mexican can travel anywhere in the country he wants, that his travel is not illegal, until he crosses the frontier. They have wanted to put the whole burden and onus of preventing the traffic on us. The most they have done recently is to send three or four jeeps and about fifteen men to the Rio Grande Valley around Reynosa and even these have now been withdrawn, according to the best information we can obtain.

It has been suggested that the Mexicans have used troops to patrol their side of the Border. The Embassy can find no confirmation of this whatsoever except once under the Presidency of Aleman when troops were used to make the *peons* harvest the cotton crop on his ranch and the ranches of a few of his friends near the Border. When this was done, the troops were withdrawn and the wetbacks allowed to come over. It is even reported that some of the soldiers discarded their rifles and uniforms and crossed the Border also as wetbacks, lured by the two-dollar a day wage as contrasted with their pay of thirty cents a day.

The effect of this on the Republican Party is also obvious. The Democrats would be provided with a wonderful issue that the good-neighbor policy had been jettisoned and we were back to the use of troops and force.

In this connection, I may say that last Friday, Nancy and I went to a small dinner of ten—all Mexicans but ourselves—in the home of an important Mexican official. He took me aside after dinner and said that a Cabinet Officer had recently told him that the Republican Party is hostile to Latin America. My friend replied that Mexico has been invaded several times by the United States but always when we had a Democrat administration at home. He evinced concern over this and a desire to talk with me further on the matter to see what we could do to offset it. As a result, he is lunching with me alone on Monday to go into the situation fully. Troops on the Border will support the Cabinet Officer's contention.

Only yesterday, I received information from a very trustworthy source that the informant had been shown what purported to be a memorandum given by an unidentified Mexican to President Ruiz Cortines setting forth purportedly the Republican Party's evaluation of the present Mexican Cabinet. The memorandum specifically stated that the Foreign Minister, Señor Padilla Nervo, is an out and out Communist. This, of course, is absurd. I am trying to run the matter down and find out more about it. Perhaps your sources of information can find out whether such a memorandum was prepared by the Republican Committee or others last January. It is quite possible, of course, that this is a spurious document planted for mischievous purposes and it shows what we have to contend with.

The *bracero* problem is a serious one and the agreement regarding it expires December 31st of this year, but it is only one problem in our relations with Mexico, and to jeopardize those other interests here and throughout Latin America to get a *bracero* agreement would, I feel, be a tragic blunder. We can get a *bracero* agreement and without calling out of troops. In fact, that might make it much more difficult. If the matter is entrusted to the Embassy for negotiation with representatives of the Labor Department merely to give technical advice from Washington or perhaps down here, it can be worked out. The last time it was negotiated by representatives of the Labor Department who pounded the table and threatened to leave and break off the negotiations on numerous occasions. It did not promote good understanding. I feel that the Embassy can negotiate it if negotiations are in its hands. We succeeded in the foot-and-mouth disease matter when we took over after the Department of Agriculture's representatives here had taken a very intransigent position and impugned the good faith of the Mexican Minister of Agriculture.

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In this whole connection, it is important to know that the authorities of the State of California often go off half-cocked in these matters. Just recently an official of the County of Los Angeles called on me, introduced by his Senator. He maintained that the Mexicans are giving the Californians no support in curbing the narcotics traffic across the Border, and he wanted me to take the matter up with President Ruiz Cortines. I did discuss the matter informally at length with the Mexican official in charge of narcotics. He showed me documents showing that Mexico has gone far beyond its treaty obligations in this matter and has been praised therefor by Mr. Anslinger, head of the Bureau of Narcotics of the Treasury Department. Seven years ago, Mr. Anslinger and his Canadian counterpart had been the most outspoken critics of Mexico and over two years ago, were the first to state openly in the International Narcotics Control Committee that Mexico had done far more than required and that its action should be a model for other nations. As a result, this Mexican official has for the last two years been elected chairman of that Committee.

Despite this, a report of the California Crime Commission criticized Mexico a while ago. The Mexican Consul in Los Angeles took the matter up with the Chairman of that Committee and showed him the documents to prove his case. The Californian stated that the Crime Committee, having made its report, was dissolved; that the statements were not those of the official committee but merely of the members thereof, and admitted that they had drawn that section of their report up rather hurriedly and without thoroughly going into the matter!! If we act on half-baked complaints of the Californians, we are bound to be in very hot water. I am assembling material to put them right on the narcotics matters.

It is also alleged that the wetback situation in California has become particularly bad because the wetbacks are resorting to violence. The information we have indicates that there has been violence in sporadic cases and that the fault has been about fifty-fifty on the part of our enforcement agents and the wetbacks. Recently a wetback was wounded by gunfire and about two months ago a member of the Border Patrol repatriating wetbacks stopped the bus carrying the deportees to pick up another wetback hiding in the bushes. When the guard got out to go after this man, some of the wetbacks in the bus jeered him and the guard picked up a clod of earth, threw it through the open window, hitting a deportee in the eye, which resulted in his loss of the eye; so the violence is not all on one side.

I am bringing this matter to your urgent attention because the information I have from Washington is that probably we could not stop the proposed measures even if the Department should make a last-ditch fight of it. I feel that it is imperative that that last-ditch fight be made. I read last night in the number of the *New York Times* that I received

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yesterday that Mr. Brownell is now in California studying the matter and will be back in Washington next Tuesday, August 18th. This morning's Mexican press reports further that he will stop off in Denver on Monday to report to the President. For these reasons, I feel it imperative to get this information to you as quickly as possible.[3]

With kindest regards,

Yours very sincerely, FRANCIS

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[3] No reply from Dulles has been found in Department of State files. The following note was written at the top of the first page: "The Attorney General will talk this over with us on his return. Nothing rash is contemplated." This note, signed with the initials N.M.P., was presumably written by Norman M. Pearson, Staff Assistant to Assistant Secretary Cabot.

Cabot files, lot 56 D 13, "Mexico"

The Assistant Secretary of State for Inter-American Affairs (Cabot) to the Ambassador in Mexico (White)

CONFIDENTIAL [WASHINGTON,] August 18, 1953.

DEAR FRANCIS: On my return from a blissful weekend I received your letter of the 14th[1] with regard to the wetback problem and I have also talked with General Smith about it.

I have the impression that things in Washington are beginning to turn more favorably to the viewpoint which you have so forcefully expressed in this problem. General Smith, from his personal experience on the border, does not like the idea of using Federal troops to stop the wetback traffic and is only less opposed to National Guard units. Also there seems to be considerable reason to suppose that Brownell, who went out west avowing that drastic action must be taken, is returning convinced that some people out west view it one way but others a different way.

In view of General Smith's position and since we in ARA have never been happy about the proposed use of troops, we shall do what we can to dissuade Brownell from his intentions when he returns. I believe he is due back today or tomorrow. We shall doubtless have a meeting about it in the very near future.

With every good wish,

Sincerely yours, JOHN M. CABOT

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[1] *Supra.*

811.06(M)/8-2753

Memorandum by the Officer in Charge of Mexican Affairs (Belton) to the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] August 27, 1953.

Subject: Suggested Position on Migrant Labor Problem.

In your further discussions with Attorney General Brownell on the wetback problem, the following position is suggested:

1. Penalties against employers have long been felt by the Mexicans to be the answer to the wetback problem. There is no doubt that a system of administrative fines would be pleasing to them. However, this is a domestic matter and one on which the Department probably should not voice an opinion. Attention is called to the suggestion which appeared in a letter to the *New York Times*, published August 22, that Social Security cards be denied to wetbacks and that employers be denied income tax deductions for labor expenses paid to persons not possessing such cards.

2. There is no objection on the part of the Department or, so far as is known, of the Mexican Government, to the return of wetbacks to the interior of Mexico in the most efficient and effective way possible, probably by airlift. The Department will be happy to assist in making any necessary arrangements with the Mexican Government for whatever system of transportation may be devised.

3. The Department has for years been endeavoring to persuade the Mexican Government to take effective action against the departure of wetbacks, with practically no success. The Mexican Government maintains it is constitutionally unable to take action against its citizens at the points where policing would be most effective, some one hundred miles or more south of the border. This is a matter of interpretation, however, and our Embassy has called the attention of the Mexican Government to provisions of Mexican law which appear to authorize such action. The *New York Times* of August 24 carried an article stating the Mexicans had started patrolling well south of the border. This has not yet been officially confirmed, but if it is the case it may indicate a reversal of the previous stand. We will ask Ambassador White to discuss this subject with the Mexican Foreign Minister.

4. The present Migrant Labor Agreement expires December 31. Preliminary conversations between this Department and the Department of Labor concerning a new agreement are already under way. An entirely new approach to the problem is being considered with a view to devising a simplified agreement to reduce the relative advantage of being a wetback or hiring one. There is no basis for optimism that the Mexican Government will agree to this new approach, but as soon as the matter has been fully explored within our Government the Depart-

ment will ask Ambassador White to discuss the subject with the Mexican Foreign Minister. At the same time, we might take up the question with Ambassador Tello.

5. If a new type of agreement does not prove feasible, the possibility of operating unilaterally may be explored. The Department of Labor would require additional legislative authority before this could be undertaken.

6. Either a new type of agreement or a unilateral operation would presumably route large numbers of potential wetbacks into legal channels. In so far as a disposition still existed on the part of employers to hire illegals or there remained a sizable number of applicants for whom work was not available, adequate enforcement machinery would continue to be essential.

811.06(M)/9-1953

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] September 19, 1953.

Subject: Mexican Wetback Problem

Participants: Mr. J. Lee Rankin, Assistant Attorney General
Mr. John M. Cabot, Assistant Secretary of State

I called on Assistant Attorney General Rankin by appointment with regard to the Mexican wetback problem and we discussed the various considerations underlying it. At the end of the discussion, Mr. Rankin proposed that it might be possible to make an arrangement more or less along the following lines. The United States would establish, for Mexican-born citizens crossing into the U.S, arrangements substantially similar to those now prevailing for Canadians at the Canadian border. Mexicans coming into the U.S. for legitimate reasons other than employment would have no further formalities to face. Those seeking employment would be required to go to Department of Labor offices which would arrange with farmer associations to see that the applicants were sent to places where labor was required. The applicants for labor would be required to pay prevailing wage rates, provide proper housing, food and other working conditions and pay for transportation. By requiring evidence that labor had been legally obtained and refusing income tax deductions in the absence of such evidence, the employers could be forced to employ legitimate labor. On the other hand, the requirement that Mexicans seeking employment go to Labor offices would provide a means of choking off immigrant labor in the event that unemployment should become serious again in the U.S. American labor should be satisfied that wages and working conditions

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would be less depressed by this condition than by the easy influx of wetbacks. The Mexican Government might not be altogether pleased but it could scarcely object to our permitting the entry of Mexican citizens under easy conditions, and the responsibility for preventing Mexicans from leaving Mexico to seek employment in the U.S. would not only be its own, but also might be one which it would be unwilling to take. I said, however, that I did not think that the Mexicans would permit us to put labor recruiting officers in Mexico under such an arrangement. Mr. Rankin will examine this with Labor and wanted to have our considered views of it.

It was understood on both sides that the entire conversation was tentative and exploratory and was held in view of the danger that we may find it impossible to negotiate any satisfactory *bracero* agreement or solve the wetback problem.

712.11/10–1353

Memorandum by the Secretary of State to the President[1]

CONFIDENTIAL [WASHINGTON,] October 13, 1953.

Subject: Meeting with President Ruiz Cortines of Mexico.

Attached is background information on the President of Mexico and on United States-Mexican relations which you may find helpful in your conversations with President Ruiz Cortines on October 19. I believe it would be of value if you would emphasize your views as to the serious nature of the Communist menace. You might also stress the determination of the United States, while in the vanguard of the fight against Communism, to respect the rights and integrity of other nations and to maintain its own liberal tradition. If you touch upon any specific problems of Mexican-United States relations you might emphasize United States desire to work harmoniously with Mexico toward solutions compatible with the national interests of both countries and productive of the greatest possible benefits to each.

The most likely specific topic which President Ruiz Cortines will mention is that of Mexican migrant labor (see page 2 of enclosure), which has produced a flood of illegal ("wetback") entries.

Since the Mexicans have indicated that they are definitely not prepared to enter into a military pact (page 2) at the present time, it would be inadvisable to raise this question.

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[1] Drafted by Officer in Charge of Mexican Affairs Belton.

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[Enclosure]

BACKGROUND INFORMATION FOR MEETING WITH PRESIDENT OF MEXICO OCTOBER 19, 1953

1. *President Adolfo Ruiz Cortines* may be addressed as President Ruiz Cortines (Roo-ées Cor-téen-ace) or President Ruiz; not as President Cortines.

He is 60 years old; usually quiet and reserved; almost sombre in appearance; married with children; not an active church member. He is believed to speak some English and has visited the United States at least once, at Los Angeles in 1948. At the time of your visit to Mexico in August 1946, he was Governor of Veracruz, and you did not meet him.

Ruiz Cortines is a politician by profession, having held political or Governmental positions almost continuously since 1913. His most important posts before becoming President were Governor of the State of Veracruz, 1944–1948, and Secretary of Government (the highest ranking position in the Mexican Cabinet), 1948–1951. Elected President in July, 1952, he assumed office December 1, 1952.

He has a personal record of honesty, integrity, and conservatism. His public record is marked by economy and caution.

2. *Mexican-United States relations* are stable and friendly. We know what to expect from Mexico and understand her limitations. The same is true of Mexico's attitude toward the United States, although it is traditionally colored by vague suspicion of our motives. This arises from past incidents, the peculiar course of Mexican history, the fear by the weak of the strong, and the activities of groups interested in fomenting discord. Mexican Foreign Minister Padilla Nervo recently made it abundantly clear that the Mexican attitude toward us is currently affected by doubt as to continuation of our own liberal tradition, and by concern that we may mistake domestic reforms among our neighbors for Communism.

Many problems exist between the two countries, mostly stemming from our geographic juxtaposition. All are probably susceptible of settlement without undue concessions by either side, although lack of auspicious circumstances at any given moment may prolong their final disposition. None of the problems is of sufficient dimension that the national security of either country is seriously menaced now, but prompt solution of some is clearly in our national interest.

3. *The Communist danger* is not fully appreciated in Mexico because of her tradition of extreme liberalism. A few prominent Mexicans are Communist advocates. Often no sharp distinction is made between these individuals and the more numerous and important proponents of

the typically Mexican revolution which, while definitely leftist and socialistic in tendency, has no Marxian basis and no Soviet connection. The governing and only effective political party in Mexico today is essentially capitalistic and orthodox in outlook, although committed to improving the economic condition of the rural masses through land reform and socialized agriculture.

In spite of an apparent lack of concern with Communism within the country, (where it has not won a significant number of followers) and of a non-committal attitude toward the efforts of the United States in the East–West struggle, there is little doubt that in time of crisis Mexico would be on our side.

Important problems of current interest include:

4. *A Military Assistance Pact* was suggested to Mexico in 1952, but it soon became apparent that this was not feasible from the Mexican domestic political viewpoint. The United States has now readjusted its assistance pact program to exclude Mexico and has found that many of the objectives of a pact are being met through the secret proceedings of the Joint Mexican-United States Defense Commission. The Mexican Government and public continue to exhibit nervousness that the United States will try to force a pact upon them. We take every opportunity to assure Mexico that, while we would still welcome a pact, we respect her decision and do not intend to raise the issue again.

5. *Uranium Exploration* in Mexico might uncover deposits which could constitute an important source of supply for the United States. The Mexican Government has assumed complete control of uranium, although exploration is limited and no desposits have been proven. The United States has tried to encourage Mexican exploration activity by offering assistance and purchase contracts. Mexico has not responded, probably due to nationalistic and domestic political considerations, reluctance to export unprocessed raw materials, and unwillingness to become involved in an atomic weapon race. We continue to emphasize that action in this field could benefit Mexico's own economy and security.[2]

6. *Mexican Migrant Laborers* have proven essential to important segments of United States agriculture. Higher wages in this country and, currently, a Mexican economic recession, stimulate the northward flow of workers. Agreements between the two Governments to regulate this flow have been largely ineffective due to lack of willingness of many employers and workers to conform to agreement procedures. Efforts are now under way to improve immigration law enforcement and to negotiate a new agreement (the current one expires December 31,

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[2] Documents pertaining to this subject are contained in Department of State file 812.2546.

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1953) designed to attract more complete support from workers and employers.

7. *Foot-and-Mouth Disease* in Mexico is being combatted under a program administered jointly by a Mexican-United States Commission. It has not made satisfactory progress, for the disease, although closely restricted, continues slowly to spread. A firm and consistent administration of the procedures agreed upon is essential. Secretary Benson has assigned Walter Thurston, former Ambassador to Mexico, as his personal representative to administer the United States portion of the program. It is hoped that President Ruiz Cortines will take full advantage of Mr. Thurston's abilities and experience in solving this problem to the mutual advantage of our two countries.[3]

8. *Shrimp boats* from the United States are often seized by Mexico in or near her waters, which she claims extend nine miles from shore. They are accused of illegal fishing, although at least some are innocent. These seizures create serious losses for United States shrimping interests and motivate many public repercussions harmful to United States-Mexican friendship. The United States intends to propose a treaty which, while not recognizing Mexico's claims on territorial waters, will regulate access to them by United States shrimpers and eliminate this problem as a source of friction.[4]

9. *Waters of the Rio Grande* below Fort Quitman are divided between Mexico and the United States by the Water Treaty of 1944. Falcón Dam now makes additional water available for irrigation, but enforcement of diversion rights remains a problem. Recent moves by Texas authorities may provide adequate controls over United States users, some of whom take Mexican waters in times of scarcity. If not, this enforcement could become a Federal obligation.

Mexico is urging fulfillment of a commitment to construct the small Anzalduas Diversion Dam below Falcón. Performance awaits local government action to meet a Congressional stipulation that necessary United States lands must be acquired by donation. One county is now undertaking practically the entire donation, and construction can probably be started soon.

The Water Treaty calls for a dam on the Rio Grande above Laredo. Its location, long a subject of public discussion, must be determined on engineering grounds to provide maximum water utilization. The Mexicans have agreed to proceed with intensified study of sites, and the Boundary and Water Commission is expediting numerous steps antecedent to requesting appropriations for construction.[5]

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[3] Documents relating to the foot-and-mouth disease problem are located in Department of State files 812.241 and 411.125.

[4] Documents on the shrimp boat controversy are located in Department of State file 611.126.

[5] Department of State file 611.12311 contains further information on diversion rights and other issues related to the waters of the Rio Grande.

Editorial Note

A record of the conversation between Presidents Ruiz Cortines and Eisenhower at Falcón Dam was made by Louis R. Blanchard, the American Consul at Tijuana, Baja California, and the official United States interpreter at the dedication ceremonies. This record was incorporated into a letter forwarded to Mr. Belton on October 24, 1953. The two participants discussed few matters of substance at the meeting; none of the outstanding issues between the two countries was mentioned. According to Blanchard's account the meeting was cordial, relaxed, and friendly, and the dedication addresses of both Presidents were warmly received by the assembled public. (Eisenhower Library, Eisenhower papers, Whitman file) President Eisenhower's speech at the dedication ceremonies is printed in the Department of State *Bulletin*, November 2, 1953, pages 579–580.

811.06 Mexico/12–453

Memorandum by the Acting Secretary of State to the President[1]

CONFIDENTIAL [WASHINGTON,] December 4, 1953.

Subject: Mexican Migrant Labor Agreement Negotiations

In view of the great public interest in the Mexican migratory labor problem, you may want to know the present status of the subject:

The agreement regulating the legal entry of migrant laborers from Mexico expires on December 31, 1953.[2] This agreement, while of use, has not prevented an alarming increase in illegal entries. Both Governments desire a new agreement, but the United States requires certain fundamental changes to make a new agreement worthwhile. Primarily, these would limit the power of Mexican authorities to obstruct operations by unilateral and arbitrary actions and would make legal entry more attractive to laborers and the use of legal laborers more advantageous to employers, thus reducing illegal entries.

Ambassador White is presenting the United States viewpoint very effectively, but there is yet no assurance a new agreement will be achieved.

Plans are now being formulated whereby, in the absence of an agreement after December 31, Mexican laborers who apply for admission to the United States can be processed unilaterally under essentially the same safeguards as at present. It is anticipated that a large

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[1] Drafted by Mr. Belton.

[2] This accord was the revised Migratory Labor Agreement which was negotiated on June 12, 1952, to replace the 1951 *bracero* agreement with Mexico.

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proportion of those now entering illegally can be diverted to controlled legal channels. This will be much more in the United States interest than the present situation.

The Mexican Government will be reluctant to see the United States undertake a unilateral program and may accept our principles for an agreement when it sees we are determined to do so. At any rate, it will be informed of our readiness to return to bilateral operation whenever it cares to accept these principles.

Some Mexican criticism of a unilateral United States program is inevitable. This would not be likely to affect our overall friendly relations and is a moderate price to pay for effective control over a potentially dangerous security situation on our southern border. Investigations are now under way to determine the feasibility of simplifying our entry procedure for all Mexican visitors in such a way as to create a favorable impression in Mexico and eliminate a large proportion of any adverse reaction.[3]

WALTER B. SMITH

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[3] In a memorandum to President Eisenhower dated Dec. 28, 1953, Secretary Dulles stated that no new agreement was likely before the expiration of the existing one, and that postponement of the expiration date seemed undesirable from the American point of view. However, in order to allow the Mexican Government one last opportunity to reach an agreement with the United States, the Secretary recommended deferring the operation of the unilateral recruitment program until Jan. 15. This would permit the Mexicans to realize that the United States was serious in its proposals and allow them time to accelerate negotiations with us "before we are under way alone." (811.06(M)/12–2853)

811.06(M)/2–354

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] February 3, 1954.

Subject: Entry of Mexican Agricultural Workers into the United States

Participants: The President
Señor Don Manuel Tello, Ambassador of Mexico
Mr. J. Lee Rankin, Assistant Attorney General
Mr. John M. Cabot, Assistant Secretary

After an exchange of courtesies, the Mexican Ambassador said that he brought a very cordial personal message from President Ruiz Cortines to President Eisenhower. He said that President Ruiz Cortines was disturbed that it had been impossible to reach an agreement in regard to the entry of Mexican agricultural workers into the United States and that he felt that this was a matter which should be possible to settle between reasonable men given goodwill on each side.

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The President expressed his great pleasure in receiving President Ruiz Cortines' message and in his turn asked the Ambassador to convey his warm personal greetings to President Ruiz Cortines. He said that he fully agreed with the latter's views and asked what the essential difficulty was.

The Ambassador said that the only trouble was with regard to wages. He said that it seemed there was a wide area of agreement between the two governments: the Mexican agricultural laborers wanted to come to the United States; American farmers wanted and needed them; the Mexican Government wanted its workers to receive fair pay; the American Government also wanted them to receive fair pay because otherwise the wages of American workers would be depressed; both sides wanted to stop the illegal entry of many Mexican workers. If only the question of wages could be ironed out, the Ambassador said, he thought our difficulties would be solved.

The President expressed some surprise at this. He said that he quite agreed that Mexican workers should be paid fair wages in our interest as well as theirs. Mr. Cabot pointed out that the more difficult question was to get an agreement which really worked in practice. The American farmers wanted to get Mexican labor at as little expense and trouble as possible and Mexican labor was perfectly willing to enter illegally and receive lower rates than those paid legal entrants. Both the American and Mexican Governments wanted to stop this but, like the prohibition law, it was right in theory but did not work out in practice. The question was how to get the illegal entrants into legal channels both for their own protection and for that of the United States. Mr. Cabot emphasized that we would prefer to have a bilateral agreement to the present arrangement.

The President referred jokingly to the troubles in enforcing the prohibition amendment and then again emphasized our willingness to negotiate at an early date and his confidence that with a conciliatory spirit on both sides it should be possible for representatives of two great governments to get together on an agreed plan. He said that maybe it would be wise if new faces could negotiate for both sides, since those who had negotiated earlier had taken positions from which it might be difficult to recede. He of course was not placing any blame on either side in the past negotiations, but merely suggesting that this might be a means conducive to an agreement.

The Ambassador expressed his sincere thanks to the President and, after reiterating again his point in regard to wages, he together with Mr. Rankin and Mr. Cabot departed.

Following the discussion, Mr. Cabot said that he had not appreciated that the Mexican Ambassador considered the wage question the real point at issue. Under our law the Secretary of Labor could not agree to a given wage scale but could simply determine what the prevailing wage was. The Ambassador pulled out Ambassador White's memorandum regarding the agreement and pointed to the first sentence of the paragraph on the determination of wages. He said that under this the Secretary of Labor, favoring the farmer, might fix a very low wage. Mr. Cabot pointed out that that was not at all his understanding of Ambassador White's purpose, that on the contrary the Secretary of Labor by determining the prevailing wage in a determined locality protected the Mexican worker from exploitation, since in the absence of such determination the Mexican laborer having no organization might accept much less than the prevailing wage. On the other hand, the Secretary of Labor had no authority under our law to negotiate regarding wages to be paid. Ambassador Tello pointed out that in most of the areas where the Mexicans were employed the great majority of workers were of Mexican origin and the prevailing wage rates, therefore, tended to be low and would be affected by the entrance of workers from Mexico. He suggested that maybe the laws could be amended to read more or less "not *less* than the prevailing wages". Mr. Cabot said that we would study sympathetically any proposals which the Mexicans might care to make, particularly for an interim agreement. Both Mr. Cabot and the Ambassador expressed the hope that a fresh start could be made toward reaching an agreement and departed on that note.

Cabot files, lot 56 D 13, "Mexico"

The Ambassador in Mexico (White) to the Assistant Secretary of State for Inter-American Affairs (Cabot)

MEXICO CITY, February 8, 1954.

DEAR JACK: I have received this morning a copy of your memorandum of conversation of February 3rd[1] at the White House with the President and the Mexican Ambassador.

Just because the matter may come up again at the Caracas Conference,[2] which I assume you will attend, I should like to point out that while we have a very definite interest in channeling all Mexican laborers into the legal and out of the illegal field, this is not the problem that is concerned in the matter of wages. The only question is that the Mexican authorities have not lived up to the recently expired Agreement. It was the abuses that have resulted in the carrying out of that Agreement that caused it to break down. The Agreement is the fairest of any existing in the world for workers. Italians going to England and France do not have such protection; Spaniards going to Cuba and Argentina do not have that protection. Guatemalans coming into Mexico do not have that or any other protection. The wages are most fair and adequate. In the matter of wages, the workers have the following benefits: 1) They are getting the prevailing wages for American domestic workers; 2) This prevailing wage is determined and published by the Secretary of Labor; 3) The Secretary of Labor cannot publish a capricious figure but must find the facts and be prepared to defend them before an investigating committee; 4) The Secretary of Labor agrees not to publish a wage rate adversely affected by the presence of illegal Mexican workers; 5) Mexican workers are going to the country with the highest wage rates in the world, rates that are 12 to 15 times what they are in Mexico; 6) The United States guarantees payment of the wages, subsistence and transportation of the workers; and, 7) If the Mexican Government or its agents have reasons to believe that the Secretary of Labor has erred in his findings, they can always ask him to make a reexamination of the situation. Instead of doing this the Mexicans have attempted to fix wages in the United States which is contrary to our laws and to the Agreement. That is the nub of the matter, and has nothing to do with sumptuary legal points such as the prohibition laws. I am sorry this point was not brought out for the President's benefit, so that he would know that there is real substance to our position in the matter of wages. Should the matter come up at Caracas, where it is very important for our relations with the rest of Latin America, I hope our position will be clearly and forcefully stated.

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[1] *Supra.*

[2] Reference is to the Tenth Inter-American Conference held at Caracas, Mar. 1–28, 1954; for documentation concerning the conference, see pp. 264 ff.

With all good wishes,

Yours sincerely,

FRANCIS

Cabot files, lot 56 D 13, "Mexico"

The Assistant Secretary of State for Inter-American Affairs (Cabot) to the Ambassador in Mexico (White)

CONFIDENTIAL [WASHINGTON,] February 10, 1954.

DEAR FRANCIS: I have your letter of February 8[1] and I am sorry that my memorandum of conversation at the White House was not clearer. I do not think there is any essential difference between the view which you take and that which I took in the course of this conference. One of the principal difficulties with the whole agreement was unquestionably the abuses to which it was subjected by the Mexican consuls. These abuses were the straw that broke the camel's back. I think we must remember, however, that when wages are 12 to 15 times higher in the United States than they are in Mexico, as you point out, the question of abuses was not the only reason it broke down. The fact is that it would have been difficult to enforce no matter how smoothly it worked. There was, moreover, the fact that the whole agreement in itself entailed a good deal of red tape for the farmer employer.

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[1] *Supra.*

My personal feeling is that no agreement—or unilateral arrangement—is going to work well. Because of the immense disparity in the economic levels of the two countries, Mexicans will enter illegally no matter how hard we and they try to prevent it. I do believe, however, that it is very desirable to have a bilateral agreement since it means a great deal in our relations with Mexico.

From our viewpoint the whole wage question is a phony, but I do think we must recognize that the Mexicans are sincere in raising it. It seems to me highly important that we should allay their suspicions on this point. On the other hand, I hope we can convince the Mexicans eventually that no agreement is better than one which does not work in practice, as the former one did not. Granted that abuses were partly responsible for this, I think the basic question is more fundamental.

With every good wish,

Very sincerely yours,

John M. Cabot

811.06(M)/2-2654

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Secretary of State[1]

[Washington,] February 26, 1954.

Subject: Mexican Migrant Labor Problem.

The United States position on the migrant labor agreement negotiations with Mexico has been that the urgency of an adequate solution to the problem has been so great we should either obtain all of our major points or control the migrant movement unilaterally. Legislation to authorize unilateral action has been reported out of Committee in both the Senate and House and will be debated on the House floor Monday, March 1.

After several months of fruitless negotiation, the Mexicans during the past two weeks have receded to a position generally acceptable to us on all but one point, that of border recruiting. Ambassador White feels that he has "squeezed all of the juice out of the lemon". He has reached a tentative understanding with the Mexicans that the border recruiting question should be referred to a joint commission for investigation and recommendation by June 30, 1954. Other lesser problems would also go to this commission. In view of the considerable success attained in the negotiations and the possibility of still obtaining border recruiting after the commission reports, we should press the Departments of Justice and Labor to accept such an agreement. This will have a beneficial effect on our over-all relations with Mexico and will be a salutary development in connection with the Caracas Conference.

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[1] Drafted by Mr. Belton.

An immediate problem arises out of the necessity of returning to Mexico no later than today some 35,000 workers who came here under the old agreement. Ambassador White has worked out an arrangement with the Mexicans to permit these workers to stay here pending the wind-up of negotiations for the new agreement. This will require a joint announcement today which will indicate the progress on the new agreement. Such an announcement has the one disadvantage of possibly weakening the chances of passage of the pending legislation, which, although probably no longer necessary for the immediate situation, is still desirable to have on the books for the long run.

811.06(M)/3-854

Memorandum by the Acting Secretary of State to the President [1]

CONFIDENTIAL [WASHINGTON,] March 8, 1954.

Subject: Mexican Migrant Labor Legislation.

The Mexican migrant labor bill,[2] on which action was completed March 4 in Congress, has caused serious concern to the Mexican Government. This stems basically from Mexico's belief that, in the absence of legislation, we will be compelled to reach agreement with her in order to gain effective control over the migrant labor movement. Our desire for the legislation originated from the need to act unilaterally if we could not reach an agreement with Mexico which would provide effective control. Although agreement now appears close, the authority in the legislation will be very useful for future contingencies.

The fact is that authority exists for admission of Mexican workers in the absence of agreement with Mexico, but without this new legislation, there is no authority for expenditure of funds to control the movements and protect the interests of these workers.

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[1] Drafted by Mr. Belton.

[2] This bill amended Title V of the Agricultural Act of 1949 to authorize the Secretary of Labor to recruit Mexican workers for U.S. employment in the absence of a U.S.-Mexican Treaty, as long as the United States had made "every practicable effort" to reach an agreement. It was approved on Mar. 4, 1954, as Public Law 309; for text, see 68 Stat. 28.

Because the reasons in paragraph one have been recognized and emphasized in public discussion of the subject, the Mexican Government feels it would appear to be acting under duress if it signed an agreement shortly after the legislation becomes effective. It has asked that whatever possible be done to prevent the bill from becoming law.

During February when the legislation was passing through Congress, negotiations for an agreement with Mexico which began last October suddenly accelerated to the extent that conclusion of an agreement is now anticipated within a very few days, probably no later than March 10.[3] In view of the Mexican sensitivity on signing an agreement after the legislation becomes effective, and because they have told us that this problem would be less acute if the agreement is signed before the legislation, the Department recommends that Presidential action be delayed until March 15.

Mexican sensibilities would be further assuaged by a brief Presidential statement at the time the legislation is signed, pointing out the beneficial effects for Mexican workers mentioned in paragraph two above. A draft statement for possible use in this regard will be forwarded in the near future.

The above information has been furnished to the Bureau of the Budget.

WALTER B. SMITH

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[3] A new Migratory Labor Agreement with Mexico was in fact signed on this date and was scheduled to remain in force until Dec. 31, 1955. On the question of wages it stipulated that "wage rates paid to the Mexican worker may not be less than the prevailing wages for domestic laborers performing the same activity in the same area of employment as determined by the Secretary of Labor." Mexico had the right to request a review if it believed the prevailing wage rate for a specific area was incorrect. For the text of the agreement, see 5 UST 379.

712.00/3–854

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward) to the Acting Secretary of State

TOP SECRET [WASHINGTON,] March 8, 1954.

Subject: Report of Revolutionary Plotting in Mexico

Background:

Ambassador White has reported a conversation of February 13[1] in which the . . . said that he is taking part in a plan to overthrow the Mexican Government. Because his group is short of funds, they are joining forces with a political party, the Henriquistas, which opposed the Government party in the last presidential election. Although Henriquez, a wealthy construction contractor who has accepted extreme leftist support, received only a small number of votes in the presidential election, he has always asserted that he would have won if the elections had not been fraudulent. The Henriquistas allegedly have some military backing, some new military equipment, an abundance of ammunition, and substantial financial support.

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[1] Ambassador White forwarded a memorandum of this conversation to the Department, dated Feb. 15, 1954 (712.00/2–1554).

Ambassador White toid the informant, . . . that the U.S. Government will not intervene in the domestic affairs of other countries and that we will respect our commitments under various inter-American treaties. . . . said he knew our position but hoped for our sympathy and possible assistance.

Evaluation:

It seems unlikely that these plotters would be successful. Such plots are reported from time to time, but serious and successful revolutionary movements are usually not so specifically known in advance. The rumors about this plot have circulated sufficiently so that the Mexican Government is aware of the plot. The Government appears relatively strong and popular.

This information is submitted to you only as a precaution so you would be in the position of having been informed in the event there should be a revolutionary attempt in Mexico.

Holland files, lot 57 D 295, "Mexico, 1954"

Memorandum for the Files, by the Ambassador in Mexico (*White*)

CONFIDENTIAL MEXICO CITY, June 3, 1954.

Subject: Report of Interview with President Ruiz Cortines

I called on President Ruiz Cortines by appointment at 7:30 last evening. He received me most graciously, as always, and the conference lasted just an hour.

After a few opening pleasantries, the President produced the *aide-mémoire*[1] I had given to Señor Padilla Nervo the day before setting forth the views of our Government regarding the consultative meeting under the Rio Treaty and the four points which we suggested the resolution might contain, as well as the four points supporting our position.

The President said he had the *aide-mémoire* and smiled and said I could see that he was getting a diplomatic education. He asked if I had come to him in connection with that matter or had I something else to take up. I told him no, I had come in connection with the possibility of a consultative meeting under the Rio Treaty. The *aide-mémoire* was in Spanish and the President read it out loud. He asked if I would like the matter taken up point by point or consider it as a whole and I told him I would be guided by his preference.

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[1] Not found in Department of State files.

The President then read paragraph one and looked to me for comment and I told him that that set forth what we thought the facts of the case so far developed indicate and constituted findings that such a meeting could justifiably make. I referred in that connection to the information I had given him at our last meeting regarding Communist penetration into Guatemala. The President said that he had read that information with great care and that the long list of Guatemalans who had gone behind the Iron Curtain which I had sent to him had reached him while he was at Veracruz last week. He asked whether I wanted an acknowledgement of my letter or whether his very sincere thanks to me now for sending it would be sufficient. I told him that his statement that he had read the material and was happy to have it was what I wanted and not to think of bothering to send me an answer.

Then I referred to the recent secret shipment of arms to Guatemala. I read to the President and left with him a Spanish translation of the four points set forth in the Department's circular telegram No. 443 of May 29th.[2] The President seemed very much impressed at the furtive way the shipment had been made and observed that if Guatemala could not get arms from the United States or Mexico or other countries and needed arms for its own defense, it could have bought the armament in a perfectly normal and above-board way but doing it as they had had naturally caused one to feel that the transaction was not just a normal, proper one.

In this connection the President stated again that Mexico has sold no arms to Guatemala and added that since he has been in office Mexico has sold arms to nobody. The President was apparently impressed by the suggestion that for the Soviets to permit an arms supply from their satellites to Guatemala they must have confidence that the Government of Guatemala is following their objectives. He was also impressed by the fact that the minimum cost of the recent shipment was $10,000,000, and that Guatemala's military budget is less than $7,000,000. He inquired whether that meant their total budget including salaries and I told him that that was my understanding. He then commented that that would leave them only about half a million dollars for purchase of equipment and therefore such a large shipment is all the more subject to suspicion.

The President then read paragraphs two, three and four. After doing so, he asked me if I had discussed the matter with the Foreign Office. I told him that I had discussed it the day before with Señor Padilla Nervo. The President remarked that Señor Padilla Nervo was ill so he had not been able to discuss the matter with him. I told him that I would be glad to tell him of my conversation with Señor Padilla Nervo and the President said he would welcome it.[3]

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[2] Circular telegram 443, not printed, was sent to all posts in Central and South America and repeated for information to Guatemala City. It emphasized the U.S. Government's grave concern over the arrival in Guatemala of massive arms shipments from the Soviet bloc. (414.608/5–2954) For additional documentation, see pp. 1111 ff.

I said that when I had handed the *aide-mémoire* to Señor Padilla he had read it over twice and I had then asked him for his personal views. Señor Padilla had emphasized that of course he had not seen the matter before and so had no chance to discuss it with the President or anybody else and had emphasized that while he was not speaking for the Mexican Government, he would give me his own personal views which were that he was in favor of a consultative meeting. The President interjected here to say that he had given orders to the Foreign Office last week after our conversation of May 24th[4] that Mexico's policy must be complete and full cooperation and friendship with the United States. That is to be the policy and it is up to the Foreign Office to find ways of implementing it. I expressed great gratification at this and added that we had been disappointed that this cooperation had not been achieved at Caracas.[5] The President said our objectives there had been the same and that the only obstacle to fuller cooperation was their Constitution; they must operate within its provisions. He did not elaborate on what constitutional provisions were involved and I did not press the point merely observing that in the present case I felt Mexico would not run into constitutional problems as every country has the right of self preservation and protection. The President assented and added that he is in full accord with President Eisenhower's policy set forth in his Memorial Day address at Columbia University[6] and mentioned specifically the President's statement about thought control. The experts in the Foreign Office had expressed their preference for a meeting of the representatives of all the American nations and not just consultation with Mexico and the Central American countries. The President said that he personally was gratified that this is what we are suggesting and that of course it is acceptable.

I then said that Señor Padilla had told me that he was very optimistic that such a conference calling on Guatemala under point four of our proposal would carry the necessary moral suasion to settle the matter. I said that he had also said that he was in accordance with the

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[3] The memorandum of this conversation of June 1, 1954, is located in the Holland files, lot 57 D 295, "Mexico, 1954."

[4] No memorandum of this conversation was found in Department of State files.

[5] At the Tenth Inter-American Conference the United States introduced a resolution, entitled "A Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against International Communist Intervention." After several sessions of debate in which minor revisions were made, 17 of the American Republics voted in favor of the resolution, Argentina and Mexico abstained, and Guatemala voted against it. Further information is contained in *Tenth Inter-American Conference, Caracas, Venezuela, Mar. 1–Mar. 28, 1954, Report of the Delegation of the United States of America with Related Documents* (Department of State Publication 5692, Washington, May 1955). For documentation on the conference, see pp. 264 ff.

[6] For text of the President's address of May 31, 1954, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954*, pp. 517–525.

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two points stipulated under No. 2, namely, measures to prevent further arms shipments to Guatemala and to stop the movement of Communist agents into and out of Guatemala but that he had told me that he was fearful that if sanctions were applied it might result in armed intervention and that he was opposed to armed intervention because it leaves wounds that take a long time to heal.

I told the President that I had replied to Señor Padilla that I of course hoped that moral suasion would be successful and that a united stand in that sense by all the American nations would give the anti-Communist element in Guatemala the added strength and courage to handle the matter themselves and get rid of the Communist domination but that I had told Señor Padilla very frankly that I did not share his optimism in this matter. I said that Communists have not shown themselves susceptible to any moral suasion. They have the definite purpose of controlling the world and doing it by any means possible and they will not be deterred by moral suasion. I added that they want to disrupt the Organization of American States and, being recalcitrant to any moral suasion would help that objective of theirs and they were perfectly willing to sacrifice Guatemala or Guatemalans in this attempt. I said that we have hopes, however, that if point two of our program should be carried out punctiliously and with publicity that might have more effect. I said it was not foreseeable at this time that there should have to be armed intervention in Guatemala as Señor Padilla Nervo fears but should the situation so develop, we would have to be able to meet again and consider it and I felt personally that it is most important that we should not be irresolute now but should think the thing through thoroughly and be prepared to do whatever is required to finish up the job. I called the President's attention again to the final paragraph of my *aide-mémoire* where it is stated that we have no feelings against the Guatemalan people and desire to take only the minimum measures required to stop and eradicate Communist penetration in Guatemala. I said I thought it would be fatal to the Organization of American States if the Soviets should get the idea that there are limitations in our inter-American agreements that would prevent us from doing what is necessary to get and keep them out of this Hemisphere. I said that after all the United States and fifteen other nations had fought the Communists in Korea on the other side of the world to try to defend freedom and it would be the utmost folly, in my opinion, to let them get the idea that we would not fight them on our own continent and that the American nations are not resolute in meeting this situation and standing together prepared to take whatever measures may eventually be necessary, starting out with those proposed in our program for the meeting but resolute to go as much further as may be required to do the job.

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The President immediately and without hesitation said that he agreed completely. He said we have to do the job and stand together.

I had opened the conversation by telling the President that in this matter I had been instructed to discuss the situation with him personally as both my Government and I personally have the highest regard for his opinion and views and that we want to cooperate most fully with him and his Government. He thanked me for this confidence in him and said that this confidence is fully reciprocated in their feeling toward me and that he and his Government want to work with us and cooperate with us and have, as he had stated before, closer relations than we have with any other country. After he made the above statement on the action which we must be resolved to take, I thanked him most sincerely, personally and on behalf of my Government.

The President then proceeded with the reading of the memorandum covering the points to be stressed to the Mexican Government. After reading the sentence that Guatemala constitutes at the present time one of the various points of conflict between Soviet Communism and the free countries of the world, he stopped and said Guatemala is the only such link in the Western Hemisphere. I assented that fortunately Guatemala is the only Government the Soviets have so far been able to penetrate. He gave his assent to all the other points brought out in point one.

On point two he referred again to what I had told him of the subterfuges of the steamer *Alfhem* and when he got to the final clause saying that Guatemala was trying to cloud the issue by dragging in the matter of the United Fruit Company, he remarked that I had fully explained that point to him during our previous meeting.

He then read the third point about our position in the United Fruit Company matter and when he read the statement that before making any claim on behalf of the Fruit Company, the United States had formally and publicly proposed arbitration or adjudication by an international tribunal and that while this proposal still stood, Guatemala had ignored it, the President ejaculated "caramba!". He then read it over a second time and shook his head in apparent disapproval of Guatemala's action.

On point four, stating that the Communist penetration in Guatemala has been along similar lines in other places under the direction of the Kremlin, the President again interjected that these other places under the direction of the Kremlin are outside of this Hemisphere. I assented thereto.

The President then made a remark that indicated that the training of leaders was only in Guatemala. I replied that unfortunately that was not the case. I said that the same thing happened with Mexicans. He looked very much surprised and said that the Communist Party in Mexico, dating from 1918, is of no importance whatsoever. He mentioned Encina and one or two others and said Encina was half crazy and didn't amount to anything. I told him I had a memorandum with me that showed the recent travel of Mexicans to Soviet satellite nations and handed him a translation of a memorandum . . . listing the travel of Mexicans behind the Iron Curtain and pointed out to him that Mr. Encina was No. 1 on the list. He smiled at this and looked it over. It listed over twenty who have recently been behind the Iron Curtain, a number of whom are still there. The President remarked that there were one or two he didn't know of but he said there are one or two Communists also that I had not listed. I told him that this was not a list of Communists in Mexico but those who had recently travelled behind the Iron Curtain, some of whom are still there.

The President at once said that these people are not important and he said should it be necessary or should we so desire, he could have them all arrested in five minutes and would do so but he thought they were not important enough to warrant doing so. I told him I was not making any such request of him but merely wanted to show that Communists are as active here as they are in the United States. I said that I realized that the Communist Party here is not strong and important but it is the beginning and that I understand that recently there has been one significant change in the Communist Party in Mexico in that up to three or four years ago the members were rather ignorant and unimportant people who had no knowledge of conditions outside of Mexico but recently the Party has included people of some education who have been given trips at Communist expense to Communist China and to the European countries behind the Iron Curtain.

The President said that he was not blind to this fact but still felt that they are now unimportant but of course bear watching and he then made the categoric statement that there are no Communists in the Mexican Government. He referred to the recent newspaper articles listing high officials as Communists and said that that was ridiculous. I did not feel it was the time to go into any greater discussion of the matter with the President. I merely wanted to prepare the way for doing so at a later date should the Department feel it advisable for me to do so. I left the list with him.

I also told the President that in the last issue I had received here of *U.S. News & World Report* of May 28th, there was a very revealing and discouraging article of tortures recently carried out on Guatemalans which I found so shocking that I thought he would like to see it. I gave him the magazine with a Spanish translation of the article in question. The President had never seen the magazine before and said that he only had seen *Time*. I told him that I thought that this is one of our most serious magazines and mentioned that it was owned and edited by David Lawrence. He said that he knew Mr. Lawrence by reputation and he was one of the outstanding journalists of great prestige and immediately showed great interest in having the magazine and the article.

I then asked the President whether I might consider what he had told me about our suggestion for a resolution to be adopted at a consultative meeting as the reply to the Department's inquiry.

The President at once said that I might of course advise my Government of what he had said as setting forth the policy of his Government and their moral support of us but that as he does not know all the technicalities, he would prefer a formal answer to come to me through the Foreign Office and that he would give them instructions today. He added that due to Señor Padilla Nervo's illness it might be a few days before I got their formal reply.

611.12/9–2254

Memorandum of Conversation, by the Secretary of State

CONFIDENTIAL [WASHINGTON,] September 22, 1954.

Foreign Minister Padilla Nervo of Mexico called today to say he brought a personal message from the President of Mexico to affirm the friendship of our two countries and the determination of the Mexican Government to develop the most cordial relations. The Foreign Minister said that he felt that relations already were excellent and indeed that there was no time in our history when the feeling in Mexico towards the United States was as good as at the present time. He deplored some trouble-making articles written by Sydney Gruson of the *New York Times*, and said that he had often thought of asking the *Times* to substitute someone else to cover their Latin-American relations. I asked how he got along with Ambassador White. He said that he had the greatest respect for him, but felt that sometimes he was a litttle too rigid and "strong" in his presentation of matters, and did not adequately take into account the susceptibility of the Mexican people.

The Foreign Minister then went on to talk at great length about the problem of the Guatemalans who had sought asylum in the Mexican Embassy. He obviously felt that the United States position as presented by Ambassador White had been too exacting—in asking that they should either be returned to the present Government of Guatemala or sent to Iron Curtain countries. He referred to the Convention on Asylum to which Mexico was a party. He also said that on matters which involved points of honor, the Mexican people were highly sensitive. He said they would accept material sacrifice, such as was involved in the devaluation of the peso; but that if the national honor was touched, then they reacted strongly and unanimously. He felt that it was best to let the refugees disappear into anonymity rather than to make martyrs of them.

I then showed the Foreign Minister the draft of what I proposed to say in my UN speech with reference to the Organization of American States and Guatemala.[1] I said I did not want to say anything that could be offensive to his Government or hurt our relations. He read the statement and indicated only some slight reservations. He was obviously embarrassed lest the fact that Mexico had abstained at Caracas would be interpreted as indicating they were not sympathetic with the anti-Communist policy. He asked me to put in at one point "without exception" to indicate a present unanimity of viewpoint.

The Foreign Minister referred to the personal relations which had existed between us for many years and the high regard which he said he had of me, and wanted me to know that if ever the relations between our countries seemed embarrassed or strained, he was sure that he and I could personally find a solution.

JOHN FOSTER DULLES

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[1] The text of Secretary Dulles' address before the United Nations, delivered on Sept. 23, 1954, is printed in the Department of State *Bulletin*, Oct. 4, 1954, pp. 471–477.

NICARAGUA

UNITED STATES RELATIONS WITH NICARAGUA[1]

717.11/5-152

Memorandum by the Secretary of State to the President[2]

CONFIDENTIAL [WASHINGTON,] May 1, 1952.

Subject: Visit of General Anastasio Somoza, President of Nicaragua

President Somoza of Nicaragua is having lunch with you at 1:00 p.m. on Friday, May 2. He is in Washington, accompanied by his wife, Salvadora De Bayle de Somoza, on route to the Lahey Clinic in Boston for medical treatment. His visit is entirely unofficial. President Somoza will come to the White House after calling on me in the morning.[3]

President Somoza has two sons: Luis, a Senator, and Anastasio Jr., a graduate of West Point (1946) and Chief of the General Staff. A daughter, Lillian, is married to Nicaragua's present Ambassador to the United States, Guillermo Sevilla-Sacasa. He is proud of the fact that he has ten grandchildren, and also that one son is married to an American. As a young man Somoza lived in Philadelphia for six years and there met his Nicaraguan wife. He speaks fluent English and likes to recall your visit to Nicaragua when you toured Central America on a special mission as Senator.

Somoza is an able man with an engaging personality. He is informal, genial, energetic, persuasive and politically astute. He is also impulsive, vain and egocentric. His desire for personal gain is very great.

In 1933 he became and still remains Director General of the Nicaraguan National Guard which the American occupation forces had organized. In 1936 he ousted the president. In a subsequent vote he was overwhelmingly elected to the presidency. He served in this office from 1937 to 1947. His present term runs from 1950 to 1957.

While the Nicaraguan government is democratic and republican in form, President Somoza has run it largely as a one man show. His

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1514 ff.

[2] Drafted by Officer in Charge of Central America and Panama Affairs Siracusa and John L. Ohmans of the Office of Middle American Affairs and approved by Assistant Secretary Miller.

[3] No records or memoranda of conversations between Presidents Somoza and Truman were found in Department of State files.

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methods have often been criticized in the United States and Latin America. He has, however, restored order to Nicaragua and in recent years has been less repressive. Nicaragua now has a two party system and a free press. Recent delegations to international meetings have been bi-partisan.

Nicaragua has consistently supported United States foreign policy. The government and the people give every evidence of friendship to the United States and our prior occupation of Nicaragua has left no residue of ill-feeling. Somoza, himself, is a great admirer of this country and he considers his official visit in 1939 as guest of President Roosevelt a highlight of his career. The Fourth of July is celebrated enthusiastically throughout Nicaragua.

The tension which intermittently characterized Somoza's relations in Central America in the post war period has been eased since the Nicaraguan and Guatemalan governments recognized each other last year and joined the newly formed Organization of Central American States. Somoza remains, however, a target for a loosely knit group of revolutionaries and expatriates frequently called the Caribbean Legion.

Recently, Somoza has shown active interest in economic development, particularly road construction. The Nicaraguan highway department has done excellent work on the Inter-American Highway and construction of feeder roads is being carried on vigorously with funds loaned by the International Bank. Somoza's present administration has greatly improved Nicaragua's financial and economic position.

Somoza especially desires completion of the Rama Road, a lateral route across Nicaragua which President Roosevelt undertook to construct with United States Emergency Funds as a substitute for the ship canal authorized in the Bryan–Chamorro Treaty of 1914. Undoubtedly, he will discuss this matter with Congressmen here. Authorizing legislation is now before the Congress in the Federal Aid Highway Act of 1952.

President Somoza has not indicated any special matters he would like to raise with you. Likewise, there are no matters which we wish to raise with him. However, he may bring up the question of the Rama Road. If so, you may wish to assure him that the Department of State has been supporting legislation for the Rama Road. To date, 4 million dollars, provided from President Roosevelt's Emergency Fund, has been spent on this project. Pending legislation if passed will authorize the expenditure of 8 million dollars in two years to complete the job. Both the House and Senate Committees on Public Works have favorably reported this item.

Should Somoza bring up the question of development loans, he should not be encouraged to believe that the United States is interested in supporting any new application to the Export-Import Bank

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at this time. Nicaragua and the International Bank for Reconstruction and Development are currently working up a balanced five year program of economic development to cost from 55–75 million dollars. He should be encouraged to continue to work with the IBRD as the logical source of development program planning and loans. The IBRD program, if adopted, would probably absorb Nicaragua's financial capacity. We should not encourage anything which might lead to an over-extension and to political repercussions in Nicaragua.

As for Point IV, an effective program is underway. Any large expansion at this time might also create an impediment to financing the IBRD program.

DEAN ACHESON

817.00/6–652

Memorandum by the Officer in Charge of Central America and Panama Affairs (Siracusa) to the Assistant Secretary of State for Inter-American Affairs (Miller)

CONFIDENTIAL [WASHINGTON,] June 6, 1952.

You may be interested in the following information on the IBRD program being developed by Nicaragua.

The IBRD mission in its report[1] stated that "few underdeveloped countries have the sheer physical potentials for growth possessed by Nicaragua" and that "the country, in relation to population, has almost unlimited land for development, land which can grow almost every tropical crop and a number of crops not typically tropical".

After commenting on the fact that the country's fiscal, administrative and monetary systems are inferior to the country's physical potentialities, the report states that with the greatly improved political stability in recent years and a favorable world outlook, the stage is set for a period of growth and development unparalleled in the country's history.

The report presents both a minimum and an optimum program, the first calling for total expenditure in five years of over $57 million and the latter of over $74 million.

The stated aims of the program are:

a) Increase the level of real per capita income in five years by 15 percent, allowing in this estimate for natural population growth; and,

b) Increase the physical volume of agricultural and industrial production by 25 percent.

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[1] Later published as *The Economic Development of Nicaragua* (Baltimore, Johns Hopkins Press, 1952, 108 pp., 1953, 424 pp.). The quotations which follow are taken from the first paragraph of Chapter 1, "The Basis for Development."

The IBRD mission believes such a program to be well within Nicaragua's capacity to finance. It recognizes, however, that it is asking Nicaragua to do as much in five years as she probably has accomplished in the last 50 years.

Our Embassy, in commenting on the report, states that it is in general agreement with the stated objectives although it feels that the report tends to gloss over and minimize the very real and serious obstacles which will be encountered in attempting to implement the recommendations therein. Principally, the Embassy feels that, because the capacity to finance is largely dependent upon external circumstances (world market prices, etc.) which are beyond the ability of Nicaragua to control, it may be too optimistic to project these accomplishments upon present expectations. It also makes other technical criticisms related to the incidence of taxation in the country, etc.

It is my opinion that, if Somoza keeps his health and remains in control, Nicaragua has grounds for real optimism in the next few years. Somoza has gone through a necessary period in establishing stability in the country and is giving increasing evidence of a forward-looking determination to do something for the lasting and general good of the country. Happily, the physical capacity exists in Nicaragua and this, coupled with the proper intent and resourcefulness, should produce solid results.

Miller files, lot 53 D 26, "Nicaragua"

Memorandum of Conversation, by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)[1]

SECRET [WASHINGTON,] September 29, 1952.

Subject: Nicaragua's Desire for Arms

Participants: Señor Dr. Don Guillermo Sevilla-Sacasa, Ambassador of Nicaragua
ARA—Mr. Mann
MID—Mr. Ohmans

The Ambassador called on Mr. Mann at the latter's request to continue the discussion of September 26[2] concerning the plans of the Central American nations to join in action against Guatemala.

The Ambassador devoted a considerable part of the discussion to Nicaragua's urgent need for arms. He said confidentially that Nicaragua needed usable arms badly.

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[1] Drafted with the assistance of Mr. Ohmans.

[2] Ambassador Sevilla Sacasa met with Mr. Mann for only a short time on this date but indicated that Nicaragua was considering the possibility of organizing a military group of Central American states to overthrow the Guatemalan Government (Miller files, lot 53 D 26, "Nicaragua").

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The Ambassador referred again to the many advantages that Nicaragua offered for the cooperative defense of the Panama Canal and he expressed the hope that the Joint Chiefs of Staff would decide that negotiations should be initiated with Nicaragua to conclude an agreement under the Mutual Defense Assistance Grant Aid Program.

Referring to Nicaragua's desire to purchase arms from the United States, the Ambassador said that his country was in no position financially to purchase the arms it needed. He emphasized the great concern of his government over the activities of Arbenz in Guatemala, who, he said, was stronger now than he was five months ago, and also expressed concern with the growing strength of the Figueristas in Costa Rica. He said that Romulo Betancourt[3] was the guiding hand behind Figueres and that a Figueres victory in Costa Rica would contribute greatly in the resurgence of Betancourt's power in Venezuela. He said quite frankly that Nicaragua did not have any effective arms to contain any action from outside the country or to maintain internal peace.

Mr. Mann then said that he wanted to speak very frankly and very carefully to the Ambassador and emphasized that although his remarks were in the friendliest manner possible, he was speaking officially for the State Department. He made the following points:

1. The United States is very friendly with Nicaragua and holds the friendship of that nation in the highest esteem.
2. The United States shares the concern of Nicaragua over the spread of communism in Guatemala.
3. The United States agrees that Nicaragua should have an adequate quantity of modern arms. Here he pointed out that the manner of getting those arms was a problem which had to be considered in the light of existing U.S. legislation available to provide transfer of the arms to Nicaragua. Mr. Mann said that the Department of State did not know what the Joint Chiefs of Staff would say with respect to the negotiations of a military assistance pact with Nicaragua. The program as developed in several of the Latin American countries was strictly a military plan and the State Department did not wish to recommend that defense considerations be subordinated to political desires. If the Joint Chiefs of Staff should decide that Nicaragua's participation is necessary to an adequate defense preparation, the Department of State would not be in opposition. Mr. Mann suggested that the Ambassador might talk with Major General Robert Walsh on this subject.
4. Mr. Mann mentioned his understanding that the Western Arms Company had offered to buy Nicaragua's old arms which would help in meeting some of the costs of the acquisition of new arms. He inquired whether the Ambassador was aware of negotiations which had been carried on in Managua. He said that if Nicaragua decided to sell its old arms to the Western Arms Corporation, the problem of pay-

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[3] Former president of the Revolutionary Governing Junta in Venezuela who was overthrown by Pérez Jiménez in 1948.

ment would at least partially be solved. Mr. Mann suggested it might be helpful to know how much had been offered by the private corporation.

5. With respect to any loans for the purchase of arms, Mr. Mann said that he did not know of the Export-Import Bank policy, but doubted if under the bank's policy a loan would be possible for the purchase of the arms. This, however, is something which would have to be explored with the Bank.

6. Mr. Mann said that the Department of State considers that the problem of Figueres in Costa Rica is different from the Guatemalan problem. He said that if Figueres becomes President of Costa Rica, he saw no cause for fear of Costa Rican aggression since the Rio Treaty[4] would be applicable in such an event.

7. Mr. Mann then went on to refer to the subject of great importance which the Ambassador had discussed with Mr. Miller and Mr. Mann on Friday, September 26.[5] He made these points:

> *a*) The Department of State does not believe it wise to speak of military adventure against Guatemala participated in by a group of American States. The United States has subscribed to principles in the UN and the OAS which are inconsistent with military adventures of this kind, and we would find it difficult to fight aggression in Korea and be a party to it in this hemisphere. Mr. Mann said that no responsible person could say that if the military adventure were consummated we would give tacit approval to it. Furthermore, the proposal was, as a practical matter, reckless since it would not be possible to maintain secrecy as is illustrated by the fact that the Department already has received vague press inquiries concerning the plan.
>
> *b*) Mr. Mann said that he thought it might be constructive to consider whether it would be practicable to deal with the problem of communism in Guatemala in a legal way, as, for example, in the Organization of Central American States or in the Organization of American States. Consideration might be given by all countries concerned with the problem of communism as to whether the Rio Treaty is applicable and if so how much unanimity of opinion there might be concerning its applicability. He said that he was not in a position to make any definitive statements, but that if the other interested states felt likewise, the idea would certainly be worth exploring. Mr. Mann said that it was apparent from the foregoing that there was a common desire to face up to the question of communism and that as far as he knew the difference in the United States and Nicaraguan position might be called one of procedure.

The Ambassador of Nicaragua was obviously disappointed to hear that the Department did not give at least tacit approval to the suggestion of a military operation but he nevertheless expressed himself as understanding very clearly the Department's position and the reasons for it.

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[4] Reference is to the Inter-American Treaty of Reciprocal Assistance signed in Rio de Janeiro, Sept. 2, 1947; for text, see TIAS No. 1838, or 62 Stat. (pt. 2) 1681.

[5] The conversation with Assistant Secretary Miller on Sept. 26 occurred directly prior to the brief meeting with Deputy Assistant Secretary Mann on that date (memorandum of conversation, dated Sept. 26, 1952, 714.00/10–352).

During the course of the conversation Mr. Mann stated that Mr. Miller planned to speak along these same general lines to Zuleta Angel of Colombia should they meet in Panama and that if a suitable opportunity presents itself, to "Tachito" Somoza (the President's son).

611.17/3–653

The Ambassador in Nicaragua (Whelan) to the Department of State[1]

SECRET
No. 430

MANAGUA, March 6, 1953.

Subject: Policy Toward Nicaragua

In view of possible adjustments of our policy toward Latin America, this Embassy wonders if the time is not appropriate to invite the Department's attention to the strategic importance of the Republic of Nicaragua, not only in relation to Hemispheric Defense but also in relation to the spread of Communism from Guatemala.

President Somoza previously informed this Embassy unofficially that he would like to have Nicaragua considered for Military Grant aid under the Mutual Security Act and that he would like Military Training Missions for the Nicaraguan National Guard and the Air Force. The request for the Air Mission was finally transmitted through official channels and a Mission will arrive in April. He has not asked officially for military aid or a mission to train the National Guard because he has heard from some source that we would refuse the request.

Whatever may have been the reason for the Department's disinclination to consider military aid for Nicaragua, the Embassy believes it was based upon conditions which no longer exist. This country has undergone an almost complete transformation within the last ten years. One has but to read the report of the Mission of the International Bank for Reconstruction and Development to get a picture of the tremendous changes in the economy of the country and the almost boundless opportunities for its future development. The general political situation (which will shortly be reviewed in a report from this Embassy) is stable for the first time during this century. Despite the widespread impression to the contrary, Somoza is not a dictator in the true sense of the word. Somoza's political enemies have joined him. Most of them have grown old and feeble. The Embassy knows of no one who could successfully challenge his political position.

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[1] Drafted by Rolland Welch, First Secretary of the Embassy in Nicaragua.

It seems to have been customary in some quarters to have attacked Somoza's character. The Embassy agrees that he appears to have an insatiable thirst for money and a considerable love of power. Nevertheless, the Embassy believes in his expressions of friendship for the United States. During the last war he virtually offered to turn this country over to us. He says (and we believe him), he would do so again. He has consistently instructed his delegates to United Nations Assemblies to cast their votes in support of the policy of the United States. He once offered his services in combatting the spread of communism from Guatemala but cancelled his plans when he learned they were unacceptable to us. He has repeatedly said that he would do exactly as we say, and we know of nothing in his record that shows any inclination to fail us in international matters. It is probably true that he admires Latin America's "strong men"—including, for that matter, Peron—but he recognizes that his country's real ties are with the United States.

He said in a press interview in New York some months ago, in reply to questions about political conditions in this hemisphere, "we are tied to the United States, if it should fail, obviously we will all fail."

He has said that while he wished to do what we wanted him to do, he has frequently had difficulty in learning our opinions because we have been evasive. In the Embassy's opinion Somoza talks straight and likes straight talk. In our efforts to help in the development of the country (inter-American highway or Point IV), Somoza has consistently matched our financial contributions or has exceeded them. Yet he has complained that we have not required other countries to match dollar for dollar in development programs. The Embassy recognizes considerable truth to his statement that we have done more for our enemies than for our friends. The Embassy also believes that in some respects we have not accepted the friendship he has proffered us, and we have not taken full advantage of his willingness to be helpful.

Fear has been expressed in the past that if Nicaragua had stronger military forces, Somoza might use them against Figueres in Costa Rica, for whom he seems to have unrelenting hatred. While Somoza thinks that as of now Figueres will be elected President of Costa Rica and that that country will then become another Guatemala, he has said many times that we need not fear that he will take any action without consultation and approval.

In fact, the Embassy does not believe military aid would have to be so large as to make his forces a threat to neighboring states. It is believed that such a force might actually be a comfort to El Salvador and Honduras where there is current fear of communist infiltration from Guatemala. There have recently been talks between leaders of military forces in Nicaragua, El Salvador and Honduras and we understand these conversations explored the possibility of presenting a common front in the event of trouble with Guatemala. Somoza has frequently proposed a meeting of the Presidents of the Central American states or of the countries of the Caribbean area (see my despatch 416 of March 3, 1953),[2] and he firmly believes that such a meeting would lead to the creation of an *active* anti-communist bloque. He would wish to be guided by the United States in calling such a meeting and would solicit our advice as to matters to be discussed.

Nothing has been said to encourage the President to indulge in wishful thinking, but it is certain that he would request through official channels military aid and a Training Mission (either or both) if he thought the request would be received favorably.

We believe that his ideas about calling a meeting of Presidents and his wishes for a Military Mission and of Military Grant aid are worthy of consideration and further exploratory conversations.

THOMAS E. WHELAN

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[2] Not printed (720.001/3-353).

717.5/5-553

Memorandum of Conversation, by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)

SECRET [WASHINGTON,] May 5, 1953.

Subject: Proposal for a Military Agreement between the U.S. and Nicaragua

Participants: Señor Dr. Guillermo Sevilla Sacasa, Ambassador of Nicaragua
U—The Undersecretary[1]
ARA—Mr. Mann

The Ambassador called at his request on the Undersecretary and, after presenting the greetings of President Somoza, spoke of the concern of his Government with the growth of communist influence in Guatemala. He said that because of the disparity in military strength between Guatemala and its neighbors to the south there was, in the opinion of Nicaragua, both a danger of communist infiltration from Guatemala into small neighboring republics and a risk that these neighboring states would reach an understanding with Guatemala. Communist influence also exists to a lesser degree in Costa Rica and the communist plan doubtless is eventually to control Central America, Panama and Venezuela. He described the situation in Venezuela as "not good".

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[1] Walter Bedell Smith.

The Ambassador then said that Nicaragua, as the traditional and constant friend of the United States, is the logical and strategic place to build up as an anti-communist bulwark. Nicaragua needs arms and is ready to sign a bilateral western hemisphere agreement similar to the ones which exist between the United States and some seven other American Republics. Nicaragua is prepared, he said, to sign irrespective of whether or not similar agreements are signed with other Central American countries.

The Undersecretary said that he valued Nicaragua's friendship and shared the Ambassador's apprehensions concerning the dangers which communism represent in Central America. He said that the possibility of entering into agreements of the kind mentioned by the Ambassador is already under consideration and he instructed Mr. Mann to expedite a decision.

After leaving the Undersecretary's office the Ambassador informed Mr. Mann that he was very pleased with the conversation.

Editorial Note

In a letter to Secretary of Defense Wilson dated April 9, 1953, Secretary of State Dulles recommended that Nicaragua, as well as El Salvador and Honduras, be declared eligible for military grant aid assistance under the Mutual Security Act of 1951 (716.5 MSP/4–953). On December 9, 1953 in a memorandum to Foreign Operations Administration Director Stassen, President Eisenhower authorized the initiation of bilateral military negotiations with all three nations (717.5 MSP/12–1453). Negotiations between the United States and Nicaragua began in February 1954, and a bilateral military assistance agreement was signed on April 23, 1954 (despatch 426 from Managua, dated April 23, 1954, 717.5 MSP/4–2354). For further documentation on the military assistance issue in this and other Latin American cases, see pages 116 ff.

717.00/4–454: Telegram

The Ambassador in Nicaragua (Whelan) to the Department of State[1]

CONFIDENTIAL NIACT MANAGUA, April 4, 1954—8 p. m.

116. President Somoza has just informed me that two members National Guard were killed, one wounded today in attempt to assassinate

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[1] Repeated for information to San José, Tegucigalpa, San Salvador, and Guatemala City.

him. Three truckloads arms and ammunition smuggled from Costa Rica with full knowledge Costa Rican officials especially Colonel Herrera of Civil Guard, the President claimed. Attempt made to ambush him last night on leaving reception my house but he told us then that he had been tipped off and guards ran men away from nearby city water tank. Today, two guardsmen attempted to stop suspicious truck on road to Montelimar but occupants opened fire. A motorcycle policeman joined the fray and he and one guardsman killed and the other guard wounded. Child passing by also killed. Assailants escaped but are believed to be surrounded. Somoza told Colonel Layton there were fourteen men in truck. Colonel Rogers says air force spotted abandoned truck containing ammunition and he learned some men in jeep were arrested in front my residence gate last night.

President told Layton he was declaring martial law. President claims General Chamorro[2] back of plot. Chamorro failed appear my reception last night which was unusual, Somoza then commenting on it.

Please inform G–2.

WHELAN

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[2] Presumably Emiliano Chamorro Vargas, President of Nicaragua from 1917 to 1921 and leader of the Conservative Party.

617.18/5–554

Memorandum by the Deputy Director of the Office of Middle American Affairs (Neal) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

CONFIDENTIAL [WASHINGTON,] May 5, 1954.

Subject: President Somoza's Charges Against President Figueres

President Somoza has charged unofficially and semi-publicly that President Figueres was involved in the recent assassination plot against him in the following ways: (*a*) That he allowed the revolutionaries to plot and to form up in Costa Rica, despite warnings of the intended action by the Nicaraguan Ambassador to Costa Rica; (*b*) that Figueres personally plotted with Romulo Betancourt and Juan Bosch,[2] among others, this assassination attempt; and (*c*) that Figueres and his Administration assisted the revolutionaries to buy arms in Costa Rica.

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[1] Drafted by Mr. Ohmans.

[2] Writer and politician from the Dominican Republic who founded the Dominican Revolutionary Party in 1939.

The Embassy in Managua was allowed to photograph many of the documents and the arms taken from the revolutionaries. The pictures showed clearly that boxes carrying the ammunition came from Punta Arenas, Costa Rica. The photographs in the possession of the Department do not clearly implicate Figueres, although there are frequent references in the captured documents to the arms obtained from the Government in Costa Rica. There are many rumors of Figueres' personal involvement, even to the extent of bidding the plotters good-bye as they left Costa Rica, but the Department is not in possession of any definite information. Perhaps President Somoza obtained some confessions from the plotters who were not killed immediately. Incidentally, two Costa Ricans, including a former member of Figueres' Presidential staff, were among those killed.

717.00/5–754: Telegram

The Ambassador in Nicaragua (Whelan) to the Department of State

CONFIDENTIAL PRIORITY MANAGUA, May 7, 1954—2 p. m.

152. Deptel 142, May 6.[1] Somoza's principal evidence is 45-page single spaced confession of Rivas Montesa, Legionnaire[2] from Honduras, and shorter confessions of Legionnaire Gustavo Zavala and Luis Armando Morales Palacios.[3] All entered from Costa Rica. Weakness of confessions is that they connect Figueres often by quoting Pablo Leal who was killed and Manuel Gómez who has escaped capture. . . .

The Costa Rican Ambassador told us yesterday his stand is Somoza's statements are pack of lies. Nevertheless, the confessions make convincing reading. Rivas goes back many years connecting Figueres with Legion activities and attempted revolutions several countries. As to the April 3–4 attempt the most direct charges taken at random from his confession follow:

"It was the President of Costa Rica who most encouraged preparations. He gave orders to Vice Minister Security Humberto Pacheco, the Secretary of General Command Colonel Rodolfo Quiroz and later to Director General *Guardia Civil* Colonel Rodolfo Herrera Pinto. Chief of detectives Cambronero had instructions to cooperate, and on more than half dozen occasions he had interviews with Pablo Leal and Juan Bosch. Figueres told Juan Bosch to remove arms hidden in Pablo

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[1] Department telegram 142 to Managua urgently requested the Embassy's convictions on the extent to which President Figueres of Costa Rica was personally involved in the Somoza assassination plot (717.00/5–654).

[2] Reference is to the Caribbean Legion.

[3] Nicaraguan officials apprehended these men in the attempt on Somoza's life. Testimony was not elicited from the other two leading participants, Leal and Gómez, for the reasons mentioned in the text.

Leal's house so police could search it and find nothing. Figueres offered Juan Bosch 100 Mausers. He got 50 and when Bosch asked for the rest he got 30 more.

"Early in February Figueres gave Bosch a Colt machine gun which was brought from Figueres' ranch. Later he gave two more Colt machine guns brought us by Colonel Herrera Pinto and Juan Bosch. According to Bosch, the President met with him and Romulo Betancourt to talk of the movement. Pablo Leal met with Figueres half dozen times. One or two days before leaving San Jose, Pablo Leal, Manuel Gómez, Juan Bosch and maybe one or two others met with Figueres who wished them good luck. The President loaned two trucks to take us to the border.

"Early in March Figueres' adjutant, called Nato Jimenez, a captain, got license plates (he means *Guardia Civil* plates) for Leal's Landrover to take arms to border. In 1951 ex-Doctor Henriquez said he was looking for three men in Mexico to assassinate Somoza, that Jose Figueres would pay $30,000."

Somoza says Rivas' brother-in-law is Chief of Administration of Ministry Fomento San Jose, father-in-law collector customs Punto Arenas.

Gustavo Zavala's statement includes following remarks: Leal said half the arms were coming from Mexico and half from Figueres. I heard many times Figueres was backing us. Also cooperating were Vico Pacheco and Colonel Rodolfo Herrera. Colonel Herrera accompanied us from Sanisidro de Coronado to beyond Alejuela March 30. Manuel Gómez told me he had obtained arms from Figueres. He told me the afternoon before leaving he had just seen Figueres. Pablo Leal said Figueres was very enthusiastic. Figueres offered a radio transmitter to control action. The arms were carried in Figueres' trucks. The chauffeurs told me they belonged Figueres.

Confession from Luis Armando Morales Palacios adds little except jeep with *Guardia Civil* plates accompanied them when they left San Jose. He said that at an earlier date he was told a group of Caribbean Legionnaires were training on Figueres' ranch for invasion Nicaragua.

Copies these confessions being pouched.

Did Department get copies photographs mentioned my telegram 128, April 13?[4]

WHELAN

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[4] Not printed (717.00/4–1354).

617.18/5–1754: Telegram

The Ambassador in Nicaragua (Whelan) to the Department of State

CONFIDENTIAL MANAGUA, May 17, 1954—11 a. m.

159. Nicaraguan note[1] to Costa Rica will be delivered there today. We obtained copy yesternoon have despatched it unaccompanied pouch via Panama should arrive Department tomorrow.

While courteous note accuses Costa Rica breaking agreement in accord article 3 Council OAS resolution December 24, 1948[2] and pact of friendship between Nicaragua and Costa Rica signed Washington February 21, 1949.[3]

Cites former friendship but quotes lengthy proof activities Caribbean legion against not only Nicaragua but other countries and against hemisphere solidarity opposing spread communism. Many pages devoted proof that plan to assassinate Somoza originated Costa Rica with knowledge Figueres and active aid several Costa Rican Government officials.

Nicaragua solicits as future guarantee expulsion for four years Betancourt, Juan Bosch and 19 others, discharge from service Vice Minister Security Colonel Pacheco, Director Civil Guard Colonel Herrera Pinto, Secretary Comandancia General Colonel Quiroz, chief detectives Cambronero and Major Vicente of civil guard, investigation customs officers who allowed entry arms by air and sea, surveillance other Nicaraguan exiles in Costa Rica, prevention entry into Costa Rica certain Nicaraguans.

Cites culpability of Figueres but abstains from formal consideration his guilt because he is President "brotherly Costa Rican people".

Expresses desire settle dispute by direct diplomatic negotiations but makes plain plotting violated Costa Rican 1948 promises to council OAS.

Nicaragua guarantees strict adherence its international commitments and 1949 pact friendship with Costa Rica.

Nicaraguan Foreign Minister privately told us he expected Costa Rica to reject note ask investigation OAS but since Costa Rica's action plainly contrary OAS recommendations 1948 Nicaragua has nothing to fear from new OAS investigation.

Copy Nicaraguan note sent Embassy San Jose special courier this morning.

WHELAN

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[1] This note of May 15 was the first official representation by the Government of Nicaragua to Costa Rica with respect to the attempt on President Somoza's life. No copy of it was found in Department of State files.

[2] The text of the OAS resolution is printed in Department of State *Bulletin*, June 5, 1949, p. 711 as part of an article by W. Tapley Bennett, Jr. entitled "The Costa Rica–Nicaragua Incident: Effective International Action in Keeping the Peace."

[3] The full text of the Pact is printed in *Annals of the Organization of American States, 1949*, p. 204. For documentation on events leading up to the signing, see *Foreign Relations*, 1948, vol. IX, pp. 488 ff.

617.18/5–1754: Telegram

The Secretary of State to the Embassy in Nicaragua[1]

SECRET PRIORITY WASHINGTON, May 18, 1954—5:53 p. m.

155. Department considers Nicaraguan-Costa Rican matter (urtel 159)[2] unless dispassionately handled may cause intensification difficulties these two countries which would distract our mutual efforts rid Hemisphere especially Central American area of international Communist threat. Inability two Governments settle this matter with as little fanfare as possible would inevitably influence US public and official opinion regarding rapid implementation grant military assistance program. Embassy San Jose has been authorized approach Figueres counseling dispassionate diplomatic reply.

Should opportunity present itself you are authorized inform Somoza above. In event opportunity not arise and in your discretion you consider it advisable you are authorized approach Somoza with foregoing.

DULLES

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[1] This telegram, drafted and approved by Mr. Neal, was repeated for information to San José as telegram 147.

[2] *Supra.*

363/6–154: Telegram

The Ambassador in Nicaragua (Whelan) to the Department of State

SECRET MANAGUA, June 1, 1954—6 p. m.

178. Department's circular telegrams 442[1] and 443[2] of May 29. President Somoza informed us today that Ambassador Sevilla Sacasa was sending his Counselor to Managua with report of conversation between the Ambassador and Holland and that he hoped the report would show him how he might help in preparing for a consultative meeting or of enlisting the support of other nations in adopting the proposed resolution.

He said "please inform the Department to be completely free and frank in telling Ambassador Sevilla Sacasa just how Nicaragua can be of help. Certainly I favor the meeting. While not objecting to Montevideo I think Washington would be a better place. The Ambassador as Dean of the Latin American Diplomatic Corps there should be of considerable help to the Department and he has instructions to follow any suggestions the Department may make. As for myself I would be pleased to communicate personally with President Peron if the Department would like me to try to enlist his support. I would certainly be most surprised if he sided with the Guatemalan rather than the Nicaraguan point of view. Perhaps I can be helpful with other countries but I will not do anything until I hear from my Ambassador."

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[1] The Department of State in circular telegram 442, dated May 29, 1954, suggested holding a consultative meeting in Montevideo under Article 6 of the Rio Treaty of 1947 to consider the recent Communist penetration of Guatemala. It proposed that the meeting adopt a resolution to meet the Communist threat and outlined the major points it believed would be included in the resolution, presenting arguments which should be used to persuade Central American governments to support them. For text of circular telegram 442, see p. 1149; for text of the draft resolution, see circular telegram 459, June 5, 1954, p. 1157.

[2] Department circular telegram 443, dated May 29, 1954, provided details of the arrival in Guatemala on May 15 of an arms shipment from the Soviet bloc, and underscored the Department's belief that the shipment endangered Central America (414.608/5–2954).

In this conversation as in all others he directly connected Figueres and Arbenz saying he had definite proof they were still working to bring about his downfall. In fact on this occasion he gave us the names of several who he said "while working for Figueres are secretly my own agents giving me detailed report".[3]

Embassy is sending separately upon this matter. Meanwhile it is plain he thinks the best proof he has of Guatemala's threat to Nicaragua is Guatemala's connection with Figueres scheming. I have repeatedly stressed Department's desire is to adhere to the single topic of Communist influence in Guatemala and I assumed Department has made this equally plain to Sevilla Sacasa upon whose advice the press seems to be relying.

WHELAN

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[3] A more detailed account of President Somoza's conversation with Ambassador Whelan is contained in despatch 484, dated June 3, 1954 (363/6–354).

617.18/7–1354

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Smith)[1]

CONFIDENTIAL [WASHINGTON,] July 13, 1954.

Subject: Costa Rican-Nicaraguan Political Difficulties

1. Current tensions between Costa Rica and Nicaragua are largely reflections of the great personal and ideological incompatibilities of their leaders. Figueres of Costa Rica is an extreme liberal; Somoza of Nicaragua is an authoritarian supported by a strong military organization. Both support the United States, but they hate each other.

2. In 1948 Figueres led a successful "war of liberation" against corrupt followers of ex-President Calderon who fled to neighboring countries. Late in that year the Calderonistas tried to return to Costa Rica from Nicaragua with some support from Somoza. They were unsuccessful, and the OAS helped to negotiate a new friendship pact between the two countries.

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[1] Drafted by Mr. Ohmans.

3. In April 1954 Nicaraguan exiles came into Nicaragua from Costa Rica to try to assassinate Somoza. They failed. Somoza freely charged that Figueres aided the revolutionary group, providing arms and a base for the planning, and demanded that Costa Rica deport a number of Nicaraguan exiles. Costa Rica answered the note after some delay, saying its officials were not involved, but admitted that the Nicaraguan plotters came from Costa Rica. It said that three of the exiles would be deported.

4. Venezuela has considered Costa Rica a greater menace than Guatemala because its former liberal president, Romulo Betancourt, is in exile there and allegedly plotting his return to Venezuela. There is substantial reason to believe its officials are plotting against Figueres. One of its planes recently dropped pamphlets over Costa Rica's capital attacking the Figueres and Betancourt association.

5. After Army-less Costa Rica unsuccessfully sought a military aid treaty with the United States, they bought a half million dollars worth of light arms. Shipment was delayed during the Guatemalan crisis, but will arrive in Costa Rica on July 14. Costa Rica has exploited the shipment as an indication of United States support. Both Venezuela and Nicaragua have been informed in advance, but Venezuela in particular resents this action by the United States.

6. Recently Costa Rica nervously has reported concentrations of men in southern Nicaragua preparatory to entering Costa Rica. Costa Rica's Foreign Minister has been especially jittery and anxious for the arms to arrive. The Costa Ricans blacked out San Jose Friday night, but on Saturday Figueres said all was tranquil.

7. The Department has endeavored to ameliorate the political tensions in the area. It has worked through United States Ambassadors in Nicaragua, Venezuela, and Costa Rica to inform all concerned of our great desire to see stable political conditions return once more to the Central American area.

617.18/7-2354: Telegram

The Secretary of State to the Embassy in Nicaragua[1]

SECRET WASHINGTON, July 23, 1954—7:40 p. m.

23. Department concerned regarding possible upset plans end Costa Rica–Nicaragua dispute. Background developments follows.

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[1] This telegram was drafted by Messrs. Holland, Woodward, and Ohmans and approved by Mr. Woodward. It was repeated for information to San José as telegram 46.

After Nicaraguan note May 15[2] Department urged Costa Rica reply promptly and in conciliatory terms. She did on June 24.[3] Department then agreed with Ambassador Sevilla-Sacasa it would undertake persuade Costa Rica deport certain Nicaraguans whose deportation Nicaragua represented would end all its complaints against Costa Rica. Sevilla-Sacasa gave Department President Somoza's assurance that immediately upon report from Department exiles had left Costa Rica he would express gratification and propose meeting of chancellors discuss re-establishment cordial relations. Somoza requested this agreement not be revealed to Costa Rican Government so Department stated only Costa Rica could confidently anticipate gesture of cordiality from Nicaragua in response to expulsion. Fulfilling its part of agreement Department urgently recommended deportation listed individuals. On July 15 Figueres promised compliance by today and apparently will actually perform by Sunday. On July 15 Department notified Sevilla-Sacasa exiles would leave Costa Rica on July 23 and requested his Government be prepared immediately afterwards fulfill its agreement to request meeting Foreign Ministers.

Under circumstances stern note to Costa Rica from Nicaragua delivered today[4] most unfortunate making it difficult Figueres expel exiles, constituting move inconsistent with agreement with Department which has been collaborating closely and placing Department exceedingly embarrassing situation in view its assurances to Figueres of gesture of cordiality from Nicaragua.

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[2] Presumably the note referred to in telegram 159 from Managua, dated May 17, 1954, p. 1382.

[3] Telegram 230, dated June 26, 1954, reported that the Costa Rican note was conciliatory but that it cleared all Costa Rican officials of complicity in the assassination attempt with the exception of those in Puntarenas who permitted concealed arms to enter Nicaragua (617.18/6–2654). President Somoza was reportedly not satisfied with the note, indicating that he would never be happy as long as Costa Rican President Figueres remained in office and continued plotting against him (telegram 9 from Managua, dated July 6, 1954, 617.18/7–654). No copy of the Costa Rican reply was found in Department of State files.

[4] Telegram 44 from San José reported that this reply to the Costa Rican note of June 24 accused the Costa Rican Government of violating the spirit and letter of the 1949 friendship treaty and that its note of June 24 indicated that Costa Rica was not disposed to renew friendly relations with Nicaragua. The Nicaraguan message indicated that since Nicaragua had not received satisfaction from Costa Rica, it would seek redress from "international law." The Embassy in Managua interpreted this to mean that the Nicaraguan Government would refer the case to the Organization of American States. (617.18/7–2354) President Somoza later explained that Costa Rica's failure to expel those involved in the assassination plot, and its refusal to admit involvement in it or to promise to prevent its recurrence, justified the stern tone of the note. Somoza maintained that persons in Costa Rica implicated in the conspiracy were simply being allowed to leave of their own free will with permission to return in the future. (617.18/7–2454)

Ambassador should do utmost obtain Somoza's assurance that if Figueres does expel exiles despite Nicaraguan note of today Somoza will immediately and in cordial terms propose chancellors meeting thereby fulfilling agreement with Department. Ambassador should also suggest to Somoza that effective preliminary method of showing good faith would be to take steps discourage shipment into Costa Rica of Nicaraguan newspapers with inflammatory articles critical Figueres.

DULLES

617.18/7-2854

Memorandum of Telephone Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

CONFIDENTIAL [WASHINGTON,] July 28, 1954—6:50 p. m.

Subject: Nicaragua–Costa Rica Situation

Participants: American Ambassador Thomas E. Whelan—Managua, Nicaragua
Assistant Secretary Henry F. Holland

Mr. Holland telephoned Ambassador Whelan and said he was calling at the Secretary's request. The Secretary asked that Whelan transmit a personal message from him to President Somoza. The message is that a continuation of the present state of tension between Nicaragua and Costa Rica will create and is creating serious problems for the Secretary and for this Government both in our domestic political picture here and in our international sphere, particularly in the UN; that the Secretary would be grateful if our good friend, and we know he is our good friend, President Somoza would take those steps that will be effective to bring about a rapid dissipation of this tension that exists between those two countries, confident that in taking those steps he can count on our collaboration and our support. Mr. Holland said that the Secretary would be grateful if Whelan would go and convey this personal message to President Somoza and give us a ring here transmitting whatever it is President Somoza wants to report back.

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[1] Drafted by Mabel Karydakis of the Bureau of Inter-American Affairs.

Ambassador Whelan asked if Mr. Holland has seen his telegram No. 19 which he said was "the ball game".[2] Mr. Holland said that he was familiar with the telegram but felt that, nevertheless, in view of the fact that the Secretary would like this personal message transmitted, it would probably be sound if Whelan would see President Somoza and express those views to him and transmit to us what he says. Whelan said that he was to see the President about seven o'clock but would try to see him right away and would telephone Mr. Holland right back if he could.

Mr. Holland said in an effort to put this thing in shape where we could dispel this tension he had done some more talking with our Embassy in Costa Rica and if President Somoza will repeat the request made in his earlier note to Costa Rica that the two Foreign Ministers meet to discuss a solution of this thing he was sure that Somoza's proposal would immediately be accepted.

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[2] Telegram 19 from Managua, dated July 27, 1954, stated that the departure from Costa Rica of most of the individuals believed to have been involved in the assassination plot had somewhat placated President Somoza. However, the Costa Rican announcement that these individuals left the country voluntarily caused him to insist that the Government of Costa Rica submit to Nicaragua a written communication certifying that all the persons named in his May 15 note had been deported. Only then would Somoza authorize his Foreign Minister to meet with his Costa Rican counterpart to normalize relations between the two countries. (617.18/7–2754)

Editorial Note

In telegram 21 from Managua, dated July 28, 1954, the Embassy reported that President Somoza insisted that the Government of Costa Rica (1) submit in writing assurances that Rómulo Betancourt and others allegedly involved in the assassination attempt be deported, (2) undertake to investigate fully the complicity of all officials suspected of involvement, and (3) return three persons taken the previous week from Nicaraguan soil (617.18/7–2854). Assistant Secretary Holland telephoned Ambassador Whelan on July 30, 1954, to report that the Costa Rican Ambassador had delivered a note which advised the United States that Costa Rica was taking action which appeared to satisfy President Somoza's three conditions. The note to the United States, however, did not specifically name Betancourt as one of the individuals who had been deported, a condition which Ambassador Whelan believed that Somoza would insist upon. (Memorandum of telephone conversation by Mr. Holland, dated July 30, 1954, 617.18/7–3054) In telegram 64, dated August 7, 1954, the Embassy in San José reported that Costa Rica would not include Betancourt's name in an official note to Nicaragua since the Costa Rican Foreign Minister had publicly stated that Betancourt could return to Costa

Rica in the future (617.18/8–754). Telegram 38, dated August 8, 1954, confirmed that President Somoza would only accept a Costa Rican note which specifically included Betancourt's name in the list of persons outside of Costa Rica to whom reentry to Costa Rica would be refused (617.18/8–854). At the Secretary of State's staff meeting on August 12, 1954, Assistant Secretary Holland reported that United States efforts to reduce tension between Costa Rica and Nicaragua had been unsuccessful. He therefore recommended that no further efforts be made to placate Somoza and that the Department should "let it be known to Somoza by appropriate means that he had impaired his position with the United States." Under Secretary Smith concurred. (Secretary's Staff Meetings, lot 63 D 75, Note No. 255) For the balance of 1954, relations between Costa Rica and Nicaragua remained tense despite continuous United States efforts to arrange a mutually acceptable solution to the controversy.

617.18/12–2254: Telegram

The Ambassador in Costa Rica (Woodward) to the Department of State[1]

CONFIDENTIAL SAN JOSE, December 22, 1954—5 p.m.

160. Jaime Solera reliable Costa Rican businessman not Figueres supporter but Director Central Bank and former member Council Notables had 5-hour conversation President Somoza December 20 Costa Rican-Nicaraguan relations as result initiative Leon Debayle Nicaraguan Central Bank and Costa Rican Finance Minister Rossi at IBRD meeting Washington. Though unofficial Solera was fully authorized by Figueres and Esquivel to state that (1) Costa Rica will not permit any preparations against Nicaragua in Costa Rican territory much less their execution; (2) Costa Rica will observe all treaty commitments; (3) Costa Rica suggests creation mixed commissions possibly under ODECA to check any rumor inimical acts either country; (4) Costa Rica would immediately halt training Guardia Civil reserves upon creation these commissions even though reserves so small of no offensive force; (5) Nicaragua could control entire frontier and (6) Costa Rica would welcome commercial treaty and would send Rossi to Managua to negotiate.

Solera informed me in presence Foreign Minister that President Somoza after listening to this statement replied in measured calm terms that (1) he does not trust Figueres and is convinced his complicity

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[1] Repeated for information to Managua as telegram 42.

April plot against Somoza (2) he will not enter into *rapprochement* with Figueres Government (3) Nicaraguan Government or individual Nicaraguans will not attack Costa Rica but (4) if Costa Ricans organize a revolution against Figueres he will regard it sympathetically and "will give them some firecrackers and a handfull of bullets" (*algunos triquitraques y un punodebalas*) (5) if Figueres is overthrown he will use his personal influence to discourage personal harm to him or his property as a lesson to Figueres after last April and (6) when news appeared re movement 6 US jets to Panama he obtained assurance from US Government report was false and that US Government was not supporting Figueres.

I commented that despite rebuff this Costa Rican overture may have beneficial effect and that it is appreciated by US Government which has repeatedly expressed its own deep interest in international tranquility.

WOODWARD

PANAMA

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND PANAMA[1]

719.001/1-1152

Memorandum by the Secretary of State to the President

SECRET

[WASHINGTON,] January 17, 1952.

Subject: Situation in Panama

With reference to the question which you raised with me last Friday,[2] the United States Embassy in Panama has reported a marked increase in recent weeks of communist activity in the Republic of Panama. This report comes at a time of severe economic depression and increasing political tension arising from the developing campaign for presidential elections in May. It has created concern regarding the possible impact of these developments on United States interests in Panama. Ambassador Wiley has proposed, as a counter-measure, immediate United States economic assistance to Panama with a view to alleviating the current widespread unemployment there.

The Department is alert to the situation and has requested on an urgent basis a National Intelligence Estimate.[3] This estimate will be directed primarily toward an assessment of the current and potential communist strength and capabilities in Panama and of the factors there which are conducive to communist penetration and influence. It will be used as a basis for determining whether in fact the communist threat is sufficiently serious that emergency measures should be taken by this Government in Panama and in the Canal Zone to safeguard our national interests on the Isthmus. An anti-communist propaganda campaign of significant proportions has already been launched by the Department.

DEAN ACHESON

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[1] Continued from *Foreign Relations*, 1951, vol. II, pp. 1528 ff.

[2] President Truman questioned Secretary Acheson in his Cabinet meeting on Jan. 11, 1952, about reports of Communist activity in Panama and requested him to prepare a report on recent developments (memorandum by Special Assistant to the Secretary of State Battle, dated Jan. 11, 1952, 719.001/1-1152).

[3] *Infra*.

Truman Library, Truman papers, PSF-Subject file

Special Estimate[1]

SECRET [WASHINGTON,] January 24, 1952.

SE-21

PROBABLE POLITICAL DEVELOPMENTS IN THE REPUBLIC OF PANAMA THROUGH MID-1952[2]

THE PROBLEM

To estimate probable political developments in the Republic of Panama through mid-1952 with special reference to Communist and other anti-US developments which might adversely affect US interests in Panama.

CONCLUSIONS

1. As an organized political entity operating in its own name, the Communist Party in the Republic of Panama is weak. The Communists cannot themselves seize power in Panama, or otherwise politically endanger US strategic interests there, during the period of this estimate.

2. Economic, social, and political conditions in Panama are fundamentally unsound, however, and are susceptible of Communist exploitation.

3. Panama is suffering an economic depression attributable immediately to the postwar reduction of US expenditures in the area, but basically to the neglect of Panama's economic potential. Panamanian officials and businessmen look to the United States for economic assistance and are likely to exaggerate the Communist danger in order to obtain it.

4. The principal danger to US interests in Panama is the rapid rise of the ultra-nationalistic (anti-US) Patriotic Front Party. This Party is not now Communist controlled, but is an important avenue of Communist penetration and influence.

5. The principal candidates in the presidential election to be held on 11 May 1952 are José Remón, who is favorably disposed toward the United States, and Roberto Chiari, who is not unfavorably disposed but is dependent on the support of the Patriotic Front. Remón could

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[1] Special Estimates (SEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems on an immediate or crisis basis. SEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of SEs.

[2] A note on the cover sheet of the source text, not printed, reads in part as follows: "The intelligence organizations of the Departments of State, the Army, the Navy, the Air Force and the Joint Staff participated with the Central Intelligence Agency in the preparation of this estimate. All members of the Intelligence Advisory Committee concurred in this estimate on 24 January 1952."

probably win a free election with his present support and would almost certainly win with the additional support of Arnulfo Arias. The Patriotic Front and the Communists, however, are likely to resort to mob violence in their determination to defeat him. Remón, who has the goodwill of the National Police, is reluctant to resort to force to gain the Presidency, but might do so if he concluded that otherwise his election would be prevented. It is not certain that the Police would support Remón in a *coup d'état*, but it is likely that they would do so. Whatever course they took would probably prove decisive.

6. Civil disturbances are probable in connection with the forthcoming election and a *coup d'état* by either side is possible. The intensity of such disturbances will affect both the outcome and the ensuing political situation.

7. Remón, as President, could expect the continuing, implacable opposition of the Patriotic Front and the Communists. If he had come to power by the use of force those elements would claim justification for their charge of militarism against him and would probably receive greater popular sympathy for their continued opposition than would otherwise be the case. Remón could probably control the situation, however, so long as he had the support of the National Police.

8. Chiari, as President, could probably free his administration of dependence on the Patriotic Front and the Communists if he had the support of the National Police and the active cooperation of the United States.

9. If Chiari became President in circumstances which rendered him completely dependent on the continued support of the Patriotic Front, Communist penetration of the adminstration would ensue and in time the Communists might attain dominant influence.

DISCUSSION

Basic Factors in the Situation

Panamanian Dependence on the United States

10. Informed Panamanians realize that close relations between Panama and the United States are inescapable, not only because of US strategic interest in the Canal and US occupation of the Canal Zone, but also because of Panama's economic dependence on the United States. At the same time they are extremely sensitive to any supposed infringement of the sovereignty of Panama. Any Panamanian government must strike a nice balance between satisfaction of the popular demand for the assertion of Panamanian sovereignty and accommodation to the realities of the situation. All Panamanian governments, however nationalistic their antecedents, have made this accommodation.

Basic Economic Conditions

11. Panama's economic development has been limited by sparsity of population, meagerness of natural resources, dearth of capital and concentration on the "Canal economy" to the neglect of agricultural development. Foreign trade is almost exclusively with the United States. Although most of the working population are engaged in agriculture, foodstuffs are the principal import (70 percent). Exports consist largely (61 percent) of one crop, bananas, controlled by two US firms. There is normally a large adverse balance of trade which in 1951 amounted to $30,000,000. This adverse balance is normally offset by dollar earnings in the Canal Zone. Thus the economy of Panama is highly sensitive to the level of US activity in the Zone.

Basic Social Conditions

12. The population of Panama is classified as 14 percent white, 19 percent Negro, and 65 percent *mestizo* or mixed. Racial tension exists with respect to the Negro minority of British West Indian origin. A few white families control most Panamanian economic activity above the level of subsistence farming. The principal employers of wage labor are the United States (in the Canal Zone) and the United Fruit Company.

Basic Political Conditions

13. Panamanian politics are essentially a contest for the perquisites of office among the few families which dominate the economic and social life of the country. Consequently they are based almost exclusively on personalities rather than on issues and are characterized by kaleidoscopic shifts in alignment amongst the many personal factions involved. Political activity is limited largely to the principal cities, Panama and Colon.

The Patriotic Front Party

14. The personal politics of Panama are increasingly influenced by the development of an ultra-nationalistic youth movement now organized as the Patriotic Front Party. The rank and file of this Party are young workers and students; the leaders are older and more experienced agitators who have developed use of the mob as an effective political weapon. The Party's vehemently anti-US line is addressed to supersensitive nationalists and to depressed social elements allegedly suffering the consequences of Yankee imperialism.

15. This ultra-nationalistic youth movement was initiated by Arnulfo Arias in 1944. Its popular demonstrations were an important factor in Panamanian rejection of the Defense Sites Agreement in 1947. Although instrumental in elevating Arnulfo Arias to the Presidency in 1949, it participated in his violent overthrow in 1951. The dominant, though covert, influence in the Patriotic Front now appears to be that of Harmodio Arias, the master mind among old line Panamanian politicians.

Communism In Panama

16. The Communist apparatus in Panama is presumably in at least indirect communication with Moscow. There are some indications that the channel may be through the Czech Legation at Caracas. The Communist-controlled Federation of Workers (FSTRP) has connections with the major Communist labor federations, the Latin American CTAL and the world-wide WFTU.

17. As an organized political entity operating in its own name, the Communist Party in Panama is weak. Called the People's Party, it has only some 500 members, of whom no more than 50 could be regarded as a hard core. Leading Panamanian Communists are mostly individualistic intellectuals. Some have been expelled from the party in the course of its internal dissensions, but retain their Communist ideology. In some circumstances, the Party may be able to enlist proletarian support through its control of the Worker's Federation and through its potential influence among the Negro employees of the Canal.

18. The most dangerous aspect of Communism in Panamanian politics is the influence of individual Communists (both Party members and expellees) among the intelligentsia. In these circles, in which philosophical Marxism is a respectable and widely accepted doctrine, Communism is not regarded as an alien menace. Communism exerts a strong influence upon both teachers and students at all levels of the Panamanian educational system and, through them, may eventually gain control of the Patriotic Front.

The National Police

19. The only armed force of the Republic of Panama is the National Police, the present active strength of which is 2,453. The Police are fairly well equipped with small arms and control the only considerable stock of arms in Panama. Their morale is good: they are unlikely to become divided by political partisanship.

20. The National Police are capable of suppressing any probable Communist or Patriotic Front disorders. They may hesitate, however, to fire upon student rioters, some of whom would be sons of the "best families" of Panama.

The Current Crisis

The Economic Situation

21. The postwar reduction in US expenditures in the area has caused an economic depression in Panama. Some 15,000 persons, probably 15 per cent of the normally employed population of Panama City and Colon, are now unemployed. Bank deposits have declined and there has been an important bank closure. Local mismanagement, graft, and capital expenditures for unproductive purposes have contributed to this situation. Most Panamanians, however, disclaim any national

responsibility in the matter and look to the United States to solve the problem through economic assistance. With that end in view officials and businessmen may purposefully exaggerate the Communist danger, the favored formula for obtaining US aid.

The Approaching Election

22. There is danger of riotous disturbances in Panama, not primarily as a result of Communist exploitation of the economic situation, but in relation to the presidential election to be held on 11 May 1952, in which José Antonio Remón and Roberto Chiari will be the principal candidates. Such disturbances would be in the ordinary course of Panamanian politics.

Remón and the National Patriotic Coalition

23. In October 1951 Colonel Remón resigned as Commandant of the National Police in order to qualify as a candidate for the Presidency. The miscellany of traditional parties or factions supporting him calls itself the National Patriotic Coalition. Their program, as expressed by Remón, includes the maintenance of friendly relations with the United States, special attention to agricultural and financial problems, and free elections.

24. An important element of strength on Remón's side is the good-will of the National Police. The present Commandant, Colonel Vallarino, favors Remón's candidacy, but is not subservient to him. It appears that the Police, as a force, are now committed no further than to maintain order.

Chiari and the Civil Alliance

25. The opposing candidate is Roberto Chiari, a successful businessman and member of one of the old families of Panama, supported by a group of parties and factions called the Civil Alliance in contradistinction to Remón's "military" character. Chiari is reasonably well disposed toward the United States, as are his conservative supporters. Common opposition to Remón, however, has brought to Chiari's side the ultra-nationalistic (anti-US) Patriotic Front Party. The (Communist) People's Party is not formally a member of the Civil Alliance, but is also actively opposing Remón and is represented in the Alliance through the participation of Communists in the Patriotic Front.

26. The dominant personality in the Civil Alliance is Harmodio Arias, who is determined that Remón shall not attain the Presidency. If necessary, Arias would probably employ the Patriotic Front's capabilities for mob violence in an effort to defeat Remón.

Arnulfo Arias and the Panameñistas

27. A third factor in the political situation is Arnulfo Arias, the deposed President,* who is in jail but retains a considerable popular following organized as the Panameñista Party. Arias is willing to exchange his political support for his liberty and may hold the balance of electoral power.

Probable Developments

28. The course of events will largely depend on three uncertain factors: the direction in which Arnulfo Arias throws his support; the possibility of mob action by the Patriotic Front; and the conduct of the National Police.

29. Remón is a self-made man and is ambitious to achieve respectability by attaining the Presidency, hitherto reserved for the socially elect. He is therefore sensitive to the charge of militarism and anxious to come to power by respectable (constitutional) means. Probably he could win a free election with his present support. Almost certainly he would win with the additional support of Arnulfo Arias.

30. Harmodio Arias is determined to prevent Remón from attaining the Presidency. It is possible that he might do so by gaining for Chiari the support of Arnulfo Arias. It is quite likely, however, that Harmodio Arias will feel it necessary to resort to mob violence in order to accomplish his purpose.

31. If Remón concluded that his election would be prevented, by one means or the other, he might attempt to seize the Presidency with the aid of the National Police. The behavior of the National Police in such a case, or in the face of student disorders in behalf of Chiari, is uncertain but likely to favor Remón. Whatever course the Police took would probably prove decisive.

32. Remón, as President, could expect the continuing implacable opposition of the Patriotic Front and the Communist. If he had come to power by the use of force these elements would claim justification for their charge of militarism against him and would probably receive a greater degree of popular sympathy for their continued opposition than would otherwise be the case. Remón could probably control the situation, however, so long as he had the support of the National Police.

33. Chiari, as President, would not himself be unfriendly to the United States and could probably free his administration of dependence on the Patriotic Front if he had the support of the National Police and the active cooperation of the United States.

34. If Chiari became President in circumstances which rendered him completely dependent on the continued support of the Patriotic Front, Communist penetration of the administration would ensue and in time the Communists might attain dominant influence.

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* The present President of Panama, Alcibiades Arosamena, is not an important factor in the situation. His possible resignation before the election might, however, precipitate a crisis. [Footnote in the source text.]

35. In no circumstances is the political situation likely to develop in such a way as to endanger immediately the strategic interests of the United States in Panama, or to bring the Communists directly to power there.

719.00/3–1152

Memorandum by the Ambassador in Panama (Wiley), Temporarily in Washington, to the Assistant Secretary of State for Inter-American Affairs (Miller)[1]

TOP SECRET [WASHINGTON,] March 11, 1952.

Subject: Disorders in Panama

All sources in Panama agree that serious disorders are impending. It is impossible to forecast whether or not these disorders will take on the nature of a "*Bogotazo*." However, this possibility is sufficiently real to require a policy decision of considerable magnitude.

In 1936, the United States relinquished its right of intervention in Panama. Nevertheless, serious disorders in the Republic could easily lead to a request for intervention on the part of the President of the Republic, and there is nothing in international law or treaty commitments to prevent the United States from intervening if invited should it so desire.

However, for the purpose of the present memorandum it may be assumed that the United States would categorically refuse directly to intervene politically in the affairs of the Republic. This memorandum, therefore, has to do with other types of intervention which might have effects equivalent to political intervention.

For example, armed forces of the United States might enter the Republic to evacuate American citizens. This could have the effect of a military demonstration. Also, if fired upon, shots might be returned. Moreover, the President of Panama might request aid to save life and property. The Fire Department of the Zone might enter the Republic and the situation could then require protection for it from the armed forces in the Zone.

In other words, the Embassy might be called upon by the armed forces to acquiesce in an operation to save life and property in cases such as, for example, fire and mob violence threatening the National City Bank. Does the Embassy say "hands off"? If so, this should be on the authority of clear-cut instructions from the Department.

I am, of course, delighted to follow any course the Department may lay down. However, events in Panama could take unexpected turns, and it is hoped that the Department can give the Embassy instructions that would cover any eventuality.

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[1] Ambassador Wiley was in Washington for consultation from Feb. 13 to Mar. 12, 1952, mainly to discuss the issue of Communism in Panama (Mann–Woodward files, lot 57 D 598, "Panama 1952–1954").

It may be added that the principle of strict non-intervention is already to some extent abandoned if the evacuation plan foresees the entry of armed forces into the Republic in order to bring Americans to safety.

JOHN C. WILEY

719.00/3-2152

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Panama (Wiley)

TOP SECRET OFFICIAL-INFORMAL [WASHINGTON,] March 21, 1952.

DEAR JOHN: We have been giving considerable thought to your memorandum to me of March 11 entitled "Disorders in Panama"[1] in which you raise the question of possible intervention by American forces in the Republic in the event of serious disorder such as a "*Bogotazo*" occurring in the Republic. As you point out this problem raises policy questions of the first magnitude. It is our view that we should get up a joint State-Defense paper on the subject which would serve as a directive both to you and to General McBride, which would deal as specifically as it is possible to do, in advance of the actual outbreak of any such disorders, with what your course of action should be. Pending the preparation and clearance of such a directive, I am writing to give you my preliminary views as a result of talks which we have had here.

Our preliminary views are as follows:

1) We are in principle opposed to any intervention in Panama, even at the request of the Panamanian Government. Last May during the revolution which unseated Arias, we were insistently requested by Arias to intervene; we refused to do so; and our judgment was subsequently borne out to be correct.

2) It is impossible in advance of knowing the exact situation that may transpire to authorize either the Embassy or CINCARIB to deviate from our treaty commitments against intervention. Consequently, we are not able to delegate any blanket authorization which would contemplate intervention. Authorization to either the Embassy or CINCARIB to intervene in Panama without prior *specific* consultation at the time with Washington would appear to presuppose a failure of communications. In the event that a special situation such as a "*Bogotazo*" should arise wherein the Ambassador and/or CINCARIB

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[1] *Supra*. The reactions of Assistant Secretary Miller's subordinates to Ambassador Wiley's letter are contained in memoranda by Officer in Charge of Central America and Panama Affairs Siracusa (719.00/3-1252, 611.19/3-1152), and by Deputy Assistant Secretary of State Mann (719.00/3-1352).

would feel that intervention should be authorized, a telecon can be set up between the Canal Zone and the Pentagon which would permit a decision to be reached rapidly on the specific recommendations of the Embassy and CINCARIB in the light of then existing conditions. Consideration might be given to establishing a secure direct line between the Embassy residence, the Chancery and Quarry Heights so as to facilitate communication between the Embassy and the Zone.

3) If political rioting should occur centered around the Palace, as in the case of the revolt against Arias last May, it would probably not be necessary to order or permit intervention by U.S. troops in the Republic even if the civil authorities of the Republic should request it. The mere fact that U.S. troops happen to be conveniently accessible to the Republic of Panama should not alter the general inter-American rule with respect to intervention. In fact the very proximity of the Canal Zone would argue against any such exception since American civilians residing in the Republic have ready access to a haven which is not found in the case of other countries in the Hemisphere.

4) The foregoing does not of course affect operations under the evacuation plan for Panama. Nevertheless the evacuation plan will be reviewed immediately to make certain that it takes into consideration all of the circumstances mentioned in your memorandum.

5) If rioting of the proportions of a "*Bogotazo*" should occur where the total destruction of Panama City would be threatened and this in turn would endanger the safety of Balboa, a different set of circumstances could arise in which it would be neither morally appropriate nor in accordance with our self-interest to refrain from intervening with troops. However, before authorizing intervention even in such circumstances, the whole situation should be reviewed by telecon or other means of communication. Naturally, in the unlikely event of failure of communications the decision would have to be left in the hands of the Embassy and CINCARIB.

We will as promptly as possible prepare the joint directive contemplated in the first paragraph of this letter. Meanwhile you should be guided by this letter although we would be glad to have any comments you may have on it.

Sincerely yours, EDWARD G. MILLER, JR.

611.19/11-2552

Memorandum by Edward W. Clark of the Office of Middle American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)

CONFIDENTIAL [WASHINGTON,] November 25, 1952.

Subject: United States–Panama Relations

The following developments in Panama have given rise to serious concern within the Department.

1. *Treatment of the American-Owned Fuerza y Luz Utility Company*

The Supreme Court on October 20 invalidated the municipal tax exemption provision of the company's 35 year old contract. On October 30 the Court dismissed the rehearing petition of the company. The company also faces a tax suit for alleged non-payment of taxes of $320,000 on profits and a fine of $254,000 for alleged late payment of income tax on dividends.

2. *Political Interference with the Point IV Program*

While there appears to have been some justification for the Panamanian Government's position in insisting upon full administrative control of programs not supported by joint funds, there now appears to be some question as to whether the Panamanian Government will not attempt to take a similar position with respect to the jointly supported Point IV *Servicios.*

3. *Assembly Resolution Critical to the United States and Growing Clamor for United States Treaty Revision*

The Assembly Resolution charges the United States with non-fulfillment of its treaty obligations and calls for a larger annuity payment. Administration officials, including Remón,[1] appear to be inspiring the popular clamor for treaty revision. By espousing such demands, without determining the attitude of the U.S., Remón puts himself out on a limb.

4. *Possible Cancellation of Contracts Negotiated Under Decree Law 12 of 1950*

There are indications that the Government may not continue to recognize the validity of contracts involving exemptions from import taxes negotiated under this law, originally designed to attract foreign capital. Some American companies are involved.

5. *Possible Break Down of Negotiations with World Bank*

The Panamanian auditing firm which has assumed the job of reorganizing Panama's internal revenue department has withdrawn from the project because of the Administration's failure to abide by its promise to protect the firm from political pressures in matters of personnel. The World Bank is concerned over this development and is sending a mission to Panama at the end of this month.

Some of the above developments are not matters on which the United States can properly protest formally. What concerns MID is the trend in the thinking and attitude of the Remón Administration which these developments would seem to indicate; that is, looking to the United States for Panama's economic salvation, regardless of the means which may be resorted to in extorting such aid. They indicate also an apparent belief that the way to obtain concessions and help from the United States is through a "get tough" policy. This course is taken as the easy way out instead of adopting the basic administrative and fiscal reforms advocated by the World Bank.

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[1] Colonel Jose Antonio Remón won the national elections held on May 11, 1952, defeating Roberto Chiari by 133,208 votes to 78,094. In spite of predictions that the elections would be accompanied by widespread violence (see SE–21, Jan. 24, 1952, p. 1392), only scattered incidents marred election day. Remón was inaugurated as President of Panama on Oct. 1, 1952. A more detailed analysis of the Presidential elections is contained in despatch 1019 from Panama City, dated June 16, 1952 (719.00/6–1952).

If you concur, would you be so good as to discuss with Mr. Miller the advisability of the latter's calling in Ambassador Heurtematte for a frank expression of our concern over these developments.

611.19/2–1353

Memorandum by the Ambassador in Panama (Wiley), Temporarily in Washington, to the Under Secretary of State (Smith)[1]

SECRET [WASHINGTON, February 13, 1953.]

PANAMA

For the United States the importance of the Republic of Panama derives from its unique geographical situation and our special treaty rights having to do with the Panama Canal Zone, which strategically, politically and economically is the most important installation possessed by the United States anywhere. The Canal Zone, a foreign corridor bisecting Panama, a sovereign nation, presents a continuing problem of great delicacy to the United States. The security of the Canal is linked with the stability of the Republic. The daily functioning of the Canal depends to an important extent on friendly collaboration with the Panamanian authorities. It is in the interest of this Government to ensure, insofar as possible, that the Government of Panama at all times be well disposed toward the United States.

It is most desirable that American policy towards Panama be reviewed from time to time with a view to meeting the exigencies of the moment and the developments of the future. The nature of the relationship between the United States and Panama is such that periodic readjustment will always be necessary by force of circumstance. In recent years such readjustments took place in 1936 and again in 1942. Extensive and perhaps excessively generous concessions were made at that time by the United States to Panama. Now a moment of readjustment seems again at hand. The advent of a new administration in Panama has given impetus to a growing and insistent clamor for new concessions, including *inter alia* a higher annuity payment on the part of the United States. President Remón and his government, responsive to local pressures, seem to be embarked on an undisguised policy of extracting as much as possible from the United States. Their attitude seems to be that only in a forthright way will anything substantial be obtained from the American Government and that they are in a position to exact demands without concern or preoccupation since Panama, which in international affairs is friendly to the United States, is too valuable to the United States for relations between the two countries to be disturbed by their exigencies.

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[1] Ambassador Wiley was in the United States from late January until the end of February and returned to Panama on Mar. 4, 1953.

The question of yielding periodically to Panamanian demands involves great danger of encroachment upon the treaty rights enjoyed by the United States in the Canal Zone since concessions could, in the course of years, have dangerous cumulative effects. It would seem desirable, in view of the very extensive concessions made to Panama in the past, that the United States avoid at this time a repetition of the procedures followed in 1936 and 1942. If there are any inequities in the Canal Zone to be remedied, measures for their correction should be limited to unilateral administrative action. No "commercial treaty" or other formal engagement should be entered into with the Government of Panama at this time whereby action by the United States would take the form of a binding international engagement.

But an alternative course must be found, since our relationship with Panama should not be based on a negative attitude alone. It might, therefore, be opportune for the American Government to consider collaboration with the Government of Panama in the economic field. Such a procedure at this time would seem particularly desirable since the economy of Panama has been based almost entirely on the Canal, a static installation which no longer suffices to support the expanding population of the Republic. Economic conditions are illustrated by the fact that there are at present 24 thousand Panamanians unemployed in the terminal cities of Panama and Colón. This unemployment of a quarter of the working population of the two cities is not due to economic depression—it is due quite simply to the fact that the necessary jobs do not exist in the present stage of economic development of the Republic. So neglected and undeveloped are Panama's own resources that Panama today imports over 60% of its foodstuffs at a cost of about $11,000,000 annually, as compared to a total annual government budget of about $40,000,000. This economic underdevelopment in turn begets and aggravates political instability, which has resulted in Panama's having had six presidents since 1948. It bears heavily upon the masses in Panama and is dangerously exploitable by leftists, communists and demagogues who find it expedient to ascribe Panama's many ills to the Canal Zone and United States policies therein. It is, therefore, desirable and timely to do everything possible to establish the economy of the Republic on a viable basis, in order to take the Panamanian mind off the Canal Zone and to contribute constructively to political and social evolution and progress. The logical point of departure for this step lies in the field of agriculture.

The annual income of the nation could be very substantially increased through an intelligent and serious approach to the reorganization and development of agriculture. The fact that Panama is a dollar country within the American economic orbit would save such an appropriation from being a mere grant. Indeed, it would have in this respect more the character of a domestic operation, since the benefits to the American economy would be immediate and real. Another most important advantage of such a program would be the development for the first time in the history of Panama of a substantial hard core of trained Panamanians which would in time permit a wholesome and much needed reorganization of the public services of the country.

It is suggested that the Department consider the possibility of seeking appropriations from Congress whereby $5,000,000 a year could be expended in Panama for, say, a period of ten years. The purpose of this grant should be specifically to develop, in the interests of agriculture, access roads, warehousing and market facilities for agricultural produce, agricultural equipment pools, land settlement, irrigation and small industry related to the processing of foodstuffs, as well as intensified technical collaboration. Whatever financial aid may be decided upon should be expended in the Republic for specific purposes under the sole and continuing control of the United States, and such funds as might not be disbursed would revert to the Treasury of the United States. The program should be entirely unilateral and without negotiated commitment on the part of the United States.

In furtherance of this program, an expression of the strategic interest of this nation in the development of political and economic stability in Panama might be sought from the Joint Chiefs of Staff. The development of agriculture in Panama would provide a local source of food supply for the garrisons and population of the Canal Zone, thus eliminating the present necessity in time of emergency of diverting sufficient foodstuffs from the United States to feed the populations of both Panama and the Canal Zone as well as to supply the necessary shipping for the purpose. Recognition of this Government's special interest in Panama would provide ample justification for special programs in Panama without creating a basis for claims by other Latin American Governments for similar treatment.

819.20/2-1353

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Under Secretary of State (Smith)

CONFIDENTIAL [WASHINGTON,] February 13, 1953.

Subject: Ambassador Wiley's Proposal for a $50 million Agricultural Grant for Panama.

Our problems with Panama divide themselves into two categories.

The first is a problem common to all of Latin America. The people are demanding higher living standards and this demand translates itself into domestic political pressures on governments which, in turn, try to shift the onus to the United States by imputing to us responsibility for their difficulties. Nationalists and Communists exploit this "rising expectation" and point to the disparity in living standards between the area and this country. I therefore agree with Ambassador Wiley to this extent: One of our most important tasks is to help Latin America acquire the dollars they need to increase productivity—to expand their agriculture and industry. And I intend to recommend to Mr. Cabot that, to accomplish this, the lending policies of the World and Exim Banks should be liberalized and made more responsive to our foreign policy requirements in Latin America or, if this is not feasible, an economic grant program for the area comparable to that for the rest of the world.

The second category comprises numerous problems which arise out of the fact that the canal zone bisects the Republic of Panama.

I do not recommend a $50 million agricultural grant program for Panama at this time because:

1. The economic problems of Panama should be treated as a part of the general problem; discrimination in favor of Panama will create trouble for us in Brazil and other countries essential to hemisphere solidarity.

2. Panama is already receiving very substantial aid from us and has not requested the program.

3. It would not satisfy the aspirations of the Panamanians concerning their relationship to the canal zone.

719.11/3-753: Telegram

The Ambassador in Panama (Wiley) to the Department of State

SECRET PANAMA CITY, March 7, 1953—2 p. m.

460. Called on Foreign Minister this morning. He referred to President Remon's press conference yesterday (Embtel 459)[1] stating Remon desired visit Washington April. He added considerable importance attached to Remon's proceeding April. He explained Remon did not himself intend to engage in negotiations for treaty revision et cetera but wished merely to see President Eisenhower in order arrange initiation negotiations for which purpose Panamanian Government would appoint committee of which two or more members would remain in Washington for duration negotiations.

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[1] Not printed (611.19/3-753).

I inquired what points Remon desired to include in proposed negotiations. Foreign Minister replied that advisory committee was preparing report on the subject which probably ready by March 15. Until report completed he was of course not in position to inform me. He did however tell me privately and off record that points would include an increase in annual annuity, question of incorporation of [Canal Zone?] into a company, trans-Isthmian transportation, competition of commissaries and general economic relations of Canal Zone with Republic, construction of docks and harbor facilities in Colon free Zone, and financing of a building project.

In reply I suggested that any visit of Remon as Chief of State to Washington would involve very considerable preparation and moreover new administration at present confronted problems greatest urgency and magnitude and I therefore thought any idea President Remon's visiting Washington near future was most premature. Foreign Minister answered Remon considered it essential to have new agreement with US ready for presentation to national assembly in October. He felt if negotiations not initiated in April there would not be adequate time to prepare new agreement. I answered him in very vague terms that question US economic collaboration with Panama was receiving interested consideration in Department and that certain studies were being initiated on working level. I feared however some months at least must elapse before such questions could be considered on the higher policy level. Foreign Minister appeared unimpressed.

Before my departure for Washington in January there had been several press references to possibility Remon's proceeding US. At that time I already attempted in every way to discourage project.

President Remon's present initiative probably responds to much pressure particularly from Foreign Minister. From remarks attributed to Remon he seems to be under impression that in Washington he would become golfing companion of President Eisenhower. He perhaps hopes that through personal contact he would out do ex-President Harmodio [*Arnulfo*] Arias who extracted extensive concessions from President Roosevelt.

If the Department replies that no visits of Chiefs of State to the US are being contemplated as yet and that any desire the Panamanian Government may have for readjusting relations between two countries should be first presented through diplomatic channels, I hope message will be embellished in such way as least to wound Remon's sensibilities.[2]

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[2] The Department replied in telegram 271 dated Mar. 13, 1953 that it was impossible to schedule the Remón visit for the current year because of the large backlog of requests for official visits and the demands such visits made on the Chief Executive's time. The Department also noted that a visit during which substantive problems were to be discussed should be preceded by considerable study of the issues involved. (719.11/3–753)

Foreign Minister stated Ambassador Heurtematte not informed as yet of Remon's plan.

WILEY

611.1913/3–1653: Telegram

The Ambassador in Panama (Wiley) to the Department of State

PANAMA CITY, March 16, 1953.[1]

472. At Constituent Convention yesterday establishing national patriotic coalition as party, President Remon stated in speech:

"We are making studies—and since local newspaper which doesn't seem Panamanian (*La Hora*) commented we are going ask for Ancon Hill and 'millions' I wish now to deny it and tell you we do not want either millions or alms; what we want is justice. We want, gentlemen when discussions start, the youth of Panama to know 1903 treaty signed under very disadvantageous circumstances; that 1903 treaty was signed 15 days after November 3, 1903 treaty was signed by a great traitor alien to our country. And if true that in 1936 treaty in which partial revisions were introduced and in which one must recognize good-will of that great statesman whom we can never sufficiently lament, to whom we Panamanians render respect and admiration, that great man called Franklin Delano Roosevelt, I repeat only partial revisions were introduced in 1936 treaty but clauses of 1903 treaty remained pending, remain still in effect which Panama has duty insisting be revised.

"It is for that reason, in discussions which must be held, Panama will insist always that clauses treaty be complied with; that Republic Panama and US of North America have joint interest in Panama Canal. Panama will also take interest in Panamanians and North Americans receiving like treatment in that Canal Zone and finally dear fellow countrymen, we shall insist all those huge sums which American Government spends on telling countries of Europe and Americas how nice they are be demonstrated with deeds doing justice to Republic Panama. In this I appeal to all Panamanians not only to members of national patriotic coalition who in fact are also in this crusade, I appeal to all Panamanians that when we make our claim we be one single family so that we may be heard and justice done us."[2]

WILEY

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[1] No transmission time was recorded on the source text.

[2] In telegram 473 from Panama City, dated Mar. 16, 1953, the Embassy noted that Remon's speech was frequently interrupted by applause, and that it would probably "provide considerable ammunition for subversive and anti-American propaganda and agitation" (611.1913/3–1653).

611.19/3-2453

Memorandum by the Under Secretary of State (Smith) to the President[1]

CONFIDENTIAL [WASHINGTON,] March 24, 1953.

Subject: United States Relations with Panama

It has always been politically expedient in Panama to exploit points of friction stemming from the Canal Zone, and a growing nationalism has complicated their settlement. However, the United States has viewed some Panamanian aspirations as not compatible with the efficient operation and security of the Canal. Although sweeping concessions were made to Panama in 1936 and 1942, Panama still aspires to

a) A higher annuity (originally $250,000, raised to $430,000 in 1936).

b) Increased limitations on or elimination of Canal Zone commissaries and PX's, and certain commercial activities in the Canal Zone.

c) Elimination of "racial discrimination" in Canal Zone, and fulfillment of United States "commitments" re equal treatment of Panamanian labor.

d) Exercise of jurisdiction in certain fields in the Canal Zone, despite grant of exclusive jurisdiction to the United States in 1903.

e) Fulfillment of United States commitments to build bridge or tunnel at Pacific end of Canal and to move railroad station in Panama City.

f) Preferential position in supplying Canal Zone markets.

Despite the fact that no specific demands have yet been officially transmitted to this Government, President Remon has been publicly demanding "justice, not alms" from the United States and has announced he will visit President Eisenhower soon. We have informed him that such a visit does not appear to be possible at this time and that advance preparation is indispensable. Remon is not well educated and lacks experience in international affairs, but is strongly anti-Communist and is considered pro-United States.

Our Ambassador is informing the Foreign Minister that this Government is willing to discuss mutual problems through normal diplomatic channels, but intimating that to make unspecified demands in public before communicating them to us is scarcely courteous and will prejudice their solution. He will also express our appreciation of Remon's friendship.

W[ALTER] B[EDELL] S[MITH]

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[1] Initially drafted by Mr. Leddy and Willian B. Sowash of the Office of Middle American Affairs, and later revised by Under Secretary Smith.

611.19/4-1053: Telegram

The Ambassador in Panama (Wiley) to the Department of State

SECRET PANAMA CITY, April 10, 1953—1 p.m.

528. Remon and wife dined alone with us last night.[1] Remon insisted he set no store on visiting Washington except for purpose initiating conversations. I nevertheless believe he would welcome invitation at later date. He denied emphatically any intention insisting on treaty revision (but he clearly has farfetched ideas on treaty interpretation). However, he was obliged to be in position when National Assembly convenes in October to present positive results. "US must make a gesture" otherwise he would appear before National Assembly only in order present his resignation as President Republic. He and wife have utterly distorted concept treaty commitments between US and Panama. Apparently their point of view revolves exclusively around letter Theodore Roosevelt to Secretary of War Taft 1904.[2] They are entirely convinced commercial activities Canal Zone completely illegal.

Our conversation lasted many hours. Remon obviously regrets tone his speech March 15 but both he and wife insisted that only thus could he snatch initiative from dangerous opposition elements. Remon was complacent over having taken Harmodio Arias and Ricardo Alfaro into camp. He has now been assured by Harmodio that tendentious policy of *La Hora* will be immediately changed. Both he and wife were confident agitation could be controlled provided US made "gesture."

Remon impressed me as being very stubborn and capable of going off the beam in ultranationalistic way. While I am convinced that he is basically not unfriendly, he will require most careful handling.

WILEY

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[1] Ambassador Wiley provided a fuller account of his conversation with the Remóns in a letter to Mr. Sowash dated Apr. 10, 1953 (611.19/4-1053).

[2] Apparent reference to President Roosevelt's letter to Secretary Taft, Oct. 18, 1904; it is printed in Elting M. Morison (ed.), *The Letters of Theodore Roosevelt* 8 vols. (Cambridge, Harvard University Press, 1951-1954), vol. 4 pp. 985-986.

611.19/4-753

Memorandum by the Officer in Charge of Central America and Panama Affairs (Leddy) to the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] May 20, 1953.

Subject: Panama Negotiations

I. *Background and Status*

1. The Panamanian Foreign Minister, Señor Guizado, came to Washington on April 3, 1953, to arrange a visit by President Remón to

President Eisenhower, "to settle all outstanding problems between the two Governments". He was received by Secretary Dulles, Under Secretary Smith and Assistant Secretary Cabot, and visited Vice President Nixon and the United States Senate. Mr. Dulles informed him that we are ready at all times to discuss mutual problems but that careful negotiations should precede any visit by President Remón, and that President Eisenhower would not wish to deal with the subjects directly.[1]

2. Señor Guizado addressed a note to the Department on April 7, requesting negotiations, and the Department's reply acceded to this request and indicated negotiations could start in the latter part of June.[2]

3. The Panamanian request is "to review the entire field of relations between the two Governments arising out of the construction and operation of the Panama Canal". Four points were mentioned by Panama; although very broad and vague, these appear to have to do with "sharing of profits" from the Canal, elimination of commercial competition from the Zone, increase in the annuity, and elimination of discrimination against Panamanian workers in the Zone. The Panamanians have stopped talking officially about "treaty revision" after the difficulties and delays in such action were brought home to them, although the Panama press still headlines "treaty revision".

4. Panama has named three negotiators (headed by Ambassador Heurtematte) and two consultants (Ricardo Alfaro and Harmodio Arias) for the negotiations to be held in Washington. We are presently organizing the American negotiating group, which is to be headed by the Assistant Secretary for Inter-American Affairs.

5. An Inter-Departmental Committee, consisting of eight Federal agencies other than State with responsibilities related to the Canal Zone has been organized to prepare the United States position for the negotiations. This Committee will hold its first meeting next week.

II. *Problems*

1. The principal objective in these negotiations is to remove as far as possible any real grounds for Panamanian complaints, in order to project our relations constructively on as satisfactory a basis as possible. Good relations are considered necessary to the security of the Canal, and to our peaceful and friendly exercise of jurisdiction in the Canal Zone. While Panamanian complaints will perhaps always be endemic, we must in our own self-interest spare no efforts to mitigate or remove them, consistent with the maintenance of our present treaty rights.

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[1] A record of this conversation is contained in a memorandum of conversation by Mr Cabot, dated Apr. 3, 1953 (611.19/4–353)

[2] The opening of the negotiations was later postponed until Sept. 10, 1953, primarily as a result of Panamanian Ambassador Heurtematte's preference for a later date (memorandum by Mr. Sowash, dated June 8, 1953, 611.19/6–853).

2. Our negotiations will be on a firm plane of seeking fair and equitable relations, without relinquishing in any way the exclusive jurisdiction and treaty rights we exercise in the Canal Zone. Many of Panama's complaints are of long standing and may well merit our unilateral action, without any bargaining; these are, mainly, the issues of "equal pay for equal work" in the treatment of labor, the reduction or elimination of segregation, restrictive measures to combat commissary and PX abuses, and the granting of labor benefits such as social security and retirement to Panamanian workers. In so far as labor treatment is concerned, the greatest number of Panamanians is affected; in so far as alleged commerical competition is concerned, the most influential group of Panamanians, the well-connected merchant class, is most affected. A settlement of these problems would better relations constructively. Such settlement might be worked out with the Armed Forces and with the civilian authorities (the Panama Canal Company and the Canal Zone Government).

3. There are several major issues outstanding with Panama, such as our 1942 commitment to build a tunnel or bridge crossing the Canal and our agreement to move the railway station in Panama City. These and similar issues of long standing may be brought up in the negotiations and if so, we may take the opportunity to dispose of them by some new agreement.

4. We are not in favor of treaty revision as such, and are encouraged that the Panamanians are now talking of reaching agreement through "application and interpretation" of the existing treaties of 1903 and 1936. An increase in the annuity is the only one of the four points listed by the Panamanians which would require an amendment to these treaties. The annuity was established in 1903 at $250,000 in gold, and revalued in 1936 at $430,000, to reflect our 1934 decrease in the gold content of the dollar.

5. We emphasize that Panama's case is neither unfounded nor, on the other hand, unexaggerated. Our objective is to correct any practices which can be used to incite hostility to the U.S., and to re-establish as far as possible a cordial and effective working relationship, without relinquishing any of our paramount strategic interests in the Zone. The lessons of recent years in Iran and Suez are solid reasons for our constructive efforts.

III. *The Negotiations*

1. Since treaty revision is not an objective, neither side is naming "plenipotentiaries" and discussions will be primarily exploratory. If a basis for agreement is established, much of this may be carried out by executive action on our part rather than treaty revision. If any treaty is necessary, it will take more time, and the Panamanians are in a hurry.

2. The Panamanian Government is always under political pressure on these issues and the Assembly, which meets again in October, is a forum for opposition demands for action by the Remón Administration. This pressure is real and should not be discounted as mere internal politics, as was seen in the bases setback in 1947. We will therefore endeavor to accelerate negotiations during the summer months, so as to avoid any unnecessary exposure of the Remón Government to opposition attack, Remón being basically friendly to the United States.

3. The Department wishes to keep the Congress informed of developments and will be glad to do so during the course of negotiations, through appearances at this Subcommittee or visits by Departmental officers to the Committee Chairman.

611.19/8–2153

The Ambassador in Panama (Wiley) to the Officer in Charge of Central America and Panama Affairs (Leddy)

SECRET OFFICIAL–INFORMAL PANAMA CITY, August 21, 1953.

DEAR LEDDY: Naturally, we have been thinking a good deal about the course the negotiations will take in Washington, and for such interest as it may present I shall attempt a résumé of the way things look to us in Panamá.

From our point of view the domestic situation in Panamá assumes considerable importance. President Remón has put himself at the head of a movement for a radical alteration in the relationship between the two countries and with the Canal Zone. What the consequences in Panamá may be is subject to varying interpretations. Highly qualified observers are apprehensive lest the eventual reaction in Panamá to possible disappointment be violent. For example, Dr. Harmodio Arias has spoken to me very seriously of the danger of an "explosion."

In considering the negotiations from a purely tactical point of view I have in mind five dates, namely, the initiation of the negotiations on September 10, the visit of President Remón to Washington on September 28–30,[1] the convening of the National Assembly on October 1, the commemoration of the 50th anniversary of the founding of the Republic on November 3–4, and the visit of the Queen of England to Panamá on November 29. I believe it would be very desirable to try to bridge this chronology with tranquility. For the purpose, the following technique might perhaps be used:

When the negotiations start on September 10 it might be well to devote as much time as possible to questions involving organization and procedure. Then, following the suggestion of Mario de Diego, great emphasis might be placed on clarifying the terms of reference for the negotiations. This could take time, particularly if questions were raised which required the Panamanian delegation to seek new instructions from Panamá. In any event, it would be desirable to keep the negotiations in the realm of innocuity until the advent of President Remón.

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[1] The Department in telegram 24, dated Aug. 18, 1953, authorized the Embassy in Panama to invite President Remón to Washington for the period of Sept. 28–30, 1953 (719.11/8–1853)

At that time there will undoubtedly be a conversation or conversations with President Remón on the policy level. I think every effort should be made then to straighten out his thinking. It might be well, tactfully but forcefully, to let him know that the American Government has been neither impressed nor pleased by his efforts to gain outside support for purely bilateral negotiations and that his sponsoring the popular demonstration to be held on August 27 is looked upon as extracurricular and as setting a precedent that might eventually work against a mutually satisfactory solution of the questions at issue between the two countries. I would suggest, though, that no inkling be given him at this time of any negative attitude the American Government might eventually adopt with regard to questions of principle which may be posed by the Panamanian delegation.

Of greatest importance with President Remón is, in my opinion, the need of persuading him, when he returns to Panamá for the opening of the National Assembly on October 1, to make only a restrained and constructive statement instead of further disturbing the situation by demagogic declarations. From what he has told me in the past, I know that he has had a burning desire to announce at that time a dramatic achievement or the imminence of such an achievement; or, on the other hand, to assume a somewhat violent position if Panamá appears to have been rebuffed. Even for him to appear before the National Assembly and address it in the tone he used in his speech of March 15 would not be helpful. If at all possible, President Remón should be committed in advance to what he will say when the National Assembly convenes.

In Panamá there is common talk that the negotiations will, in the pattern of the past, require from one to several years before the questions under discussion are resolved. At this end, I am quietly and discreetly endeavoring to exploit this concept, pointing out that as a result of World War II the American Government has grown to great dimensions, that in the forthcoming negotiations many governmental departments and agencies will be involved and that, of course, the task of composing different points of view among them will require considerable time and effort on the part of the Department of State. I am therefore urging that the Panamanians approach these negotiations in a spirit of great patience. Perhaps the same line could be emphasized in Washington.

I mention above the commemoration of the *cincuentenario*. There will be many foreign delegations and the celebration may take on somewhat the aspect of a very minor Congress of Vienna. Caribbean diplomacy will be active. It would not be a good moment for the airing of grievances on the part of Panamá or the crystallization of conflict between our two countries. Also, during the visit of the Queen of England the eyes of the world will glance briefly at Panamá. That too would not be a good moment for unfriendly demonstrations.

Indeed, I think the negotiations should be kept in as fluid a state as possible for as long as possible. I suggest this for several reasons. It would give the Department an opportunity to study carefully the Panamanian position and techniques in presenting the Panamanian point of view. Also, I think it likely that there will be a growing lack of harmony within the Panamanian delegation, which might perhaps be exploited. Moreover, the State Department would have fuller opportunity to compose differences of viewpoint in Washington, to crystallize the American position and, perhaps, to formulate a positive policy toward Panamá in studied compensation for whatever negative attitude it may be found necessary to adopt toward Panamanian demands. Also, in the world in which we live it is impossible to foresee what developments may take place in, say, the next six months, and this in turn might have an important bearing on the negotiations. There is one thing in particular that I hope we avoid: the premature use of the negative. For example, the Panamanians will probably offer base sites to the United States. It is equally probable that we shall not desire to accept the offer. I would, however, keep the matter under consideration for a very protracted period. In fact, in approaching the negative I would not for the present go beyond "perhaps." It might be well, for, say, the first three months, to keep the negotiations treading water with greatest energy, then recapitulate and set the course of the future.

I would be glad if you would discuss this letter with Ambassador Muccio.

Yours sincerely,

JOHN C. WILEY

611.19/9–853

Memorandum by William B. Sowash of the Office of Middle American Affairs to the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] September 8, 1953.

Subject: Meeting with the Secretary on Panamanian Affairs

On Friday, September 4, at the request of the Secretary, Mr. Woodward, Ambassador Muccio and I called upon the Secretary to give him some background on the negotiations with Panama which will be inaugurated this week. The current situation in Panama which has given rise to the Panamanian request was outlined to the Secretary, who indicated considerable interest in the matter.

The Secretary stated that he considered the 1903 Treaty a model one and said that, unless he could be persuaded to the contrary, the United States position in the forthcoming talks ought to be one of firm resistance to any demand on the part of the Panamanians for revision or renegotiation of the 1903 and 1936 Treaties. He expressed concern as to whether it had been made sufficiently clear to Ambassador Wiley and the Panamanian Government what our position is on this point. On the basis of the language of the Department's notes to the Panamanians concerning the conversations, your conversations with President Remón while in Panama in April, and the many discussions on the subject between officers of the Department and Panamanian Ambassador Heurtematte, the Secretary was assured that the Panamanians were cognizant of our position regarding revision, although it was becoming apparent that they were choosing to ignore it. The Secretary said that he thought this point should be driven home at every opportunity.

The Secretary was shown a copy of the list of subjects which the Department believes may be raised by the Panamanians in the forthcoming talks. He showed particular interest in two items: The question of Panamanian sovereignty in the Canal Zone and the annuity. It is his view that the annuity should not be increased and that no concessions should be made which would permit any encroachment upon the complete jurisdiction which the United States presently exercises in the Canal Zone.

611.19/9-1753

The Ambassador in Panama (Wiley) to the Secretary of State

CONFIDENTIAL
OFFICIAL–INFORMAL

PANAMA CITY, September 17, 1953.

DEAR MR. SECRETARY: Thank you very much for your letter of September 11th.[1]

I was delighted to learn that we shall yield none of our basic jurisdictional rights in the Canal Zone. My policy recommendations to the Department have been from the very outset entirely opposed to encroachment of any kind on our treaty rights and privileges in the Canal Zone. Moreover, I have been against increasing the annuity. To do so on the basis of the depreciated purchasing power of the dollar would create a bad precedent in general and inevitably open the door to continuing future demands for additional increases.

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[1] Secretary Dulles on Sept. 11, 1953 responded to a previous letter from Ambassador Wiley in which Wiley discussed an offer of limited collaboration in the treaty talks from Dr. Harmodio Arias, adviser to the Panamanian negotiating team (611.19/8-1853).

I have just seen in a Departmental memorandum to Mr. Cabot of September 8, 1953,[2] that in a meeting in your office on September 4 you expressed concern lest the United States position on revising or renegotiating the 1903 and 1936 treaties had not been made sufficiently clear to me and the Panamanian Government. A letter of mine to Mr. Sowash of April 10 sets forth in detail the very forthright statements I made to Remón and his wife[3] regarding the United States position on revising the agreements or yielding our basic treaty rights in the Canal Zone. Certainly, neither the Department nor I have ever erred on this point in Panamá and I have left nothing unsaid or undone to make matters entirely clear to President Remón, Foreign Minister Guizado and other heads of the government, as well as Dr. Harmodio Arias. Actually, when Mr. Cabot was in Panamá we succeeded, when we met with Remón and Guizado, in introducing into the official Panamanian press release given out on April 18, 1953, the phraseology limiting the negotiations to a review of the "interpretation and application of existing treaties and agreements," thus clealy excluding revision or renegotiation of these treaties and agreements. At the same time I have not failed to keep the Department fully informed regarding the attitude of President and Mrs. Remón. Both are undoubtedly suffering from an acute Patrick Henry–Joan of Arc complex with regard to the 1903 treaty, which they have described to me as being "entirely unacceptable." They both revile the memory of Bunau-Varilla, and Mrs. Remón in particular is convinced it was a calamity for Panamá that the Canal was not constructed in Nicaragua. All this should be taken into account. It is deep-seated and dangerous.

In the past, Remón has been invariably pro-American. He took over the government when it was in a state approaching chaos and has been eminently successful in stamping out corruption, in consolidating the domestic political situation and in giving the country a strong, democratic form of government. It is most unfortunate that he and his influential wife should now have deviated to a nationalistic tangent that may easily and seriously upset the otherwise favorable developments in the Republic.

I am convinced that it would be well to consider adopting—from both the immediate and long range point of view—a positive policy of economic collaboration with Panamá in order to develop the country's latent natural resources, chiefly agricultural. Such a policy might offset to some degree a negative attitude on our part required by many or most of the Panamanian demands. Moreover, if promptly formulated it might constitute a gesture and prevent Remón from returning to Panamá with loss of face. Most important, it would relieve the Republic of its unwholesome economic dependence on the Canal Zone. Actually, a positive, well designed program for the economic rehabilitation of the Republic would be bread upon the waters. Wealth would be created; we would benefit!

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[2] *Supra*.

[3] Summarized in telegram 528 from Panama City, dated Apr. 10, 1953, p. 1409.

Unfortunately, in Panamá the negotiations will have as *Begleitungsmusik* lots of negative nationalism. Much of it will be genuine. Some of it will be tactical—on the part of the opposition—and then, of course, the subversive element will be astutely active to exacerbate. I hope that we can talk over the problem of Panamá when I reach Washington with the Remóns.

Yours very sincerely, JOHN C. WILEY

719.11/9–2553

Memorandum by the Secretary of State to the President[1]

SECRET [WASHINGTON,] September 25, 1953.

Subject: State Visit of President Remon of Panama

As you know, President Remon is coming to this country in conjunction with the negotiations on the Panama Canal and will be seeing you Monday afternoon. As I discussed with you last week, Remon has been behaving rather badly, and his people have raised a great number of complicated issues with us. I am sending you, as attachments hereto, material outlining these in some detail.[2]

I think that the fundamental question here is the matter of the revision of the Treaty. I think we must continue to make it clear that we will not, under any circumstances, enter into discussions directed at a revision of the Treaty, but that we are willing to discuss interpretation and application of the Treaty as it now stands. I believe President Remon will undoubtedly require tactful handling but, if we remain firm in this regard, we should not have undue trouble with him.

JOHN FOSTER DULLES

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[1] Drafted by Mr. O'Connor.

[2] Printed below only in part.

[Enclosure]

COMMENTS ON KEY ISSUES INVOLVED IN CONVERSATIONS WITH PANAMA [3]

Of the points presented for discussion by Panama (Tab A)[4] many of those of greatest import to Panama concern matters regarding which the United States unilaterally can make certain adjustments—adjustments which would benefit Panama and at the same time conform with the overall interests of the United States.

This brief discussion is predicated on the proposition that a politically and economically stable Panama is essential to the defense of the Canal and the maintenance of its present status, and therefore that it is in the United States interest to take all practicable steps to stimulate the development of Panamanian commerce, agriculture and industry. The development of the Panamanian economy—especially agriculture—also has a defense facet, to insure the basic food supply of the Canal Zone in time of emergency. It is believed, however, that the Panamanian economy can best be stimulated by closer integration with that of the Zone rather than by United States grants and bounties.

The matters of major concern to Panama at the present time are considered to be:

1. *Increased Share in Supplying the Zone Market.*

Substantial purchases in Panama are now being made by the United States agencies in the Zone but they are restricted to a degree by the Buy American Act and riders to the annual appropriation acts. If these restrictions were removed our relations with Panama would be improved greatly and at a saving in money to the United States Government.

2. *Elimination of United States Government-financed Commercial Competition.*

In earlier times it was necessary for the health and welfare of Zone personnel for the United States to operate various types of processing and service facilities in the Zone. Examples are slaughter house and meat processing, ice cream plant, dairy, soda water bottling, etc. Panamanian commerce is now able satisfactorily to meet the need in many of these fields. By closing United States facilities which duplicate those of Panama we could confer a substantial benefit to Panama's economy at no cost to ourselves. It also would be helpful if the post exchanges and commissaries were to leave the sale of foreign luxury items to the merchants of Panama.

3. *Treatment of Panamanian Labor in the Canal Zone.*

General McSherry made a thorough study of the labor problem in the Canal Zone upon inter-Departmental request in 1947. He reported that, despite the commitments of the United States to Panama to the contrary, there is discrimination against Panamanian workers in the Canal Zone. McSherry made a series of recommendations, the most important of which have yet to be carried out. The abolition of the present dual wage scale in the Canal Zone, greater opportunities for Panamanians to compete for higher paying jobs, and adherence to a policy of equal pay for equal work would go a long way toward removing Panamanian discontent on this point. In addition, it would be most desirable to have uniformity in the labor policies and practices of the several United States Government agencies operating in the Canal Zone, which at present vary widely. Finally, it is desirable that adequate retirement provisions be made for the present local-rate workers of the Canal Company Government. At the present time, these workers are thrown upon the charity of the Republic of Panama when retired, since the present maximum of $25 per month fixed by the Cash Relief Act of 1937 is inadequate.

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[3] Drafted by Mr. Sowash on Sept. 24, 1953.

[4] Not printed.

4. *Fulfillment of Existing Commitments to Panama.*

The two most important alleged unfulfilled commitments to Panama are the removal of the railroad station in Panama City and the construction of a bridge or tunnel at the Pacific end of the Canal, which were made in the Executive Agreement of 1942. The bridge or tunnel commitment is not clear; it has not been implemented primarily because of uncertainty regarding future plans for the Canal and the high cost involved. The commitment to move the railroad station in Panama City is conditioned on Panama's supplying another site. Legislation now is before the Bureau of the Budget which would permit the carrying out of the R.R. station commitment whenever Panama offers a suitable site.

5. *Return to Panama of Lands Outside the Canal Zone no Longer Necessary for the Operation of the Canal.*

Although there is no treaty obligation for the return to Panama of the following areas, Panama apparently desires the return of Paitilla Point, New Cristobal and the present railroad terminal site in Panama City, if and when the station is moved.

The current discontent in Panama regarding relations with the Canal Zone involves two additional matters:

1. *Exclusive United States Jurisdiction in the Canal Zone.*

By the 1903 Treaty, the Republic of Panama granted to the United States all the power and authority within the Zone "which the United States would possess and exercise if it were the sovereign of the territory within which said lands and waters are located to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power or authority". Panama, however, aspires to the exercise of jurisdiction in the Canal Zone in all fields outside of those essential for construction, operation, maintenance, sanitation and protection of the Canal. The exercise of such jurisdiction by Panama is not authorized by the present Treaties, and Panamanian demands for such jurisdiction should be firmly resisted by this Government as incompatible with the security of our position on the Isthmus.

2. *Increased Annuity for the Canal Zone.*

There has been widespread criticism in Panama of the $430,000 annual payment made to Panama for the Canal Zone, since 1934, as insufficient. (Theretofore, the United States paid Panama 10 million dollars plus $250,000 annually, the increase in the annuity having been made after the change in value of the U.S. dollar.) The absence of this item from the list of subjects presented by the Panamanians, is probably contingent upon this Government's granting the greater economic opportunities in the Canal Zone which the other Panamanian demands would provide. To agree to an increase in the annuity would necessitate revising the 1936 Treaty, and such action would open the door to requests from succeeding administrations in Panama for further increases.

611.19/9-2853

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL [WASHINGTON,] September 28, 1953.

Subject: Call on President Eisenhower by President Remon of Panama.

Participants: The President
The President of Panama, Colonel Jose Antonio Remon
The Secretary of State
Dr. Harmodio Arias, Adviser to Panamanian President
Dr. Ricardo Alfaro, Adviser to Panamanian President
Sr. Henrique de Obarrio, Comptroller General of Panama
Ambassador John C. Wiley, U.S. Ambassador to Panama
Mr. John M. Cabot, Assistant Secretary of State

The President of Panama began the substantive conversation by referring to the question of post exchange and commissary competition with Panamanian business. He pointed out the injury the latter was receiving and expressed the hope that the United States would be prepared to take effective steps to prevent this allegedly unfair competition. He referred particularly to the sale of luxury items such as perfumes by the post exchanges and complained that, while in the United States post exchanges were obliged to pay duty, in Panama they operated tax free. The Panamanian merchant was unable to compete.

President Eisenhower said that he was very familiar with this problem since he had served in the Canal Zone from 1921 to 1924 and that the same old problems that he remembered from his service there still seemed to exist. He assured President Remon that we would give most sympathetic consideration to the Panamanian viewpoints. President Remon then briefly referred to the labor dispute and thereafter spoke of the questions which had arisen regarding treaty revision. He pointed out that under the 1903 Treaty the Panamanian Government could not tax Panamanians employed by the Canal Zone even on Panamanian territory although the Panamanian authorities had to supply schools and other services for these Panamanian families. If treaty revision were not to be accepted, this injustice could not be corrected.

President Eisenhower was somewhat shocked and indicated that this was a situation which seemed to require correction. Secretary Dulles then proposed that in a matter of this nature it would perhaps be possible to negotiate a new treaty covering tax matters. The Secretary made it clear that the United States had no intention of altering the present treaty structure with Panama. He remarked *inter alia* that while the United States negotiated new treaties with Spain, for example, the treaty involving the purchase of Florida was never touched; neither did any treaty with Russia have to do with the status of Alaska, which had likewise been purchased by the United States.

President Eisenhower pointed out that it would, of course, be impossible to reach any final conclusions in the course of President Remon's visit to the United States. He suggested that a joint statement might be issued regarding their conversation to be published when President Remon left Washington. Secretary Dulles mentioned that a draft was already under consideration. President Eisenhower said that in his opinion a communiqué would simply have to say that he had assured President Remon that all of the points which the Panamanians desired to raise would receive the most sympathetic consideration in the light of the specially close relations existing between the two countries and that he had expressed his confidence that the negotiators could agree upon mutually satisfactory arrangements which would, on the one hand, satisfy just Panamanian aspirations and, on the other, protect vital United States interests in the Canal. This seemed to meet with general approbation.

Mr. Cabot pointed out that with one exception all of the matters so far brought up by the Panamanian negotiators could probably be settled without any need for treaty revision. He said that the principal difficulty was to overcome the opposition of established interests to giving up the advantages they had. President Eisenhower said that the established interests would have to give way where they justly should. Mr. Cabot said that he quite agreed with that but that, for example, there were some established interests which were very firmly entrenched, such as the American labor unions in the Canal Zone. The President indicated that what he had earlier said applied also to the labor unions. The party then broke up; the conversation had lasted about forty minutes.

611.19/9-2953

Memorandum by the President to the Secretary of Defense (Wilson)[1]

CONFIDENTIAL WASHINGTON, September 29, 1953.

Regarding: Panama-American Relations

I understand that your representative, Under Secretary of the Army Johnson, is sitting in with State Department representatives to discuss certain points of friction between the governments in the Panama Canal Zone. President Remón personally presented some of his specific complaints to me. I give you a few from memory:

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[1] A copy of this memorandum was delivered to the Secretary of State

a. Without the consent of the Panama Government, the whole Panama operation was reorganized something like two years ago, setting up the Canal as a corporation, solely owned by the United States Government. Apparently the purpose of this reorganization was to make the operation largely free of control from Washington and of the normal processes of government.

My own reaction to this complaint is that, assuming the alleged change was prefectly legal and proper under the Treaty, there was still a rather arbitrary attitude displayed and, in any event, no kind of organization can relieve the Administration of complete responsibility for the action of its agents. Consequently, the Panama Canal must be directed and run in such a way as to be in keeping with the integrity, dignity and reputation of this government.

b. The Panama Canal has certain special privileges, recognized by Treaty. In general, these privileges make certain that American employees in the Canal Zone will be treated as well as American employees in any other place. However, the complaint is made that these privileges are consistently and flagrantly abused. It is claimed, for example, that the Panama Canal, operating as a corporation, sells supplies to ships passing through the Canal. This, the Panamanians believe, is not only in direct violation of the spirit of the Treaty, but is the cause of very great resentment on the part of the normal citizen.

It is claimed that personnel within the Canal Zone take advantage of their commissary and post exchange privileges, and conduct black market operations outside of the Zone.

It is further claimed that people within the Zone make imports from all over the world of items that come in completely duty free. Thus these items entering the region escape the normal tariff tolls of Panama and of the United States as well. This practice, it is alleged, further encourages black marketing, and robs Panama of tariff revenues and of trade that might otherwise come to that country.

c. It is maintained that if a Panamanian is employed by the Zone, then Panama has no right whatsoever to tax the individual. This applies even though the individual lives outside the Zone, sends his children to Panama schools, and participates in the advantages deriving from public expenditures of many kinds.

All these are merely illustrative.

I promised the Panama President that we would take up every single complaint and try jointly to decide each on its merits. I promised that we would try to apply our sense of logic and of justice to the whole problem.

In the presence of the Secretary of State, I specifically stated that we would not entertain the thought of revising the basic Treaty, but that if we found that abuses had grown up and persisted in the Zone, that we would take the necessary steps to correct them, even if this process should call for the drawing up of a new Treaty dealing with these particular points.

I do not know whether Mr. Johnson is participating in negotiations as your representative or as a representative of the Secretary of the Army. In any event, I believe he should be informed that it is the purpose of this Administration to be fair and just in working out solutions to these several problems.

I am sending a copy of this memorandum to the Secretary of State so that if there is any substantial error in it—either of commission or of omission—he can so indicate to you, and to me.

D.D E.

611.19/10-753

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Cabot) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] October 7, 1953.

Subject: Discussions with Panama.

The Panamanian Mission has completed the presentation of their proposals. This has been done in the form of 21 documents, a synopsis of which is attached (Tab A).

It appears that we will be able to meet at least to a degree the desires expressed in several of these documents without derogating from our fundamental treaty position.

Position papers outlining this Government's position on these proposals are now being prepared in collaboration with representatives of the Armed Forces and the Panama Canal Company. These papers will be submitted for your consideration in due course.

The majority of the proposals will have to be rejected in whole or in part. Some, for example Document U, would affect our fundamental rights and others, for example Document H, are clearly unjust or impractical.

[Tab A]

SYNOPSIS OF PROPOSALS PRESENTED BY PANAMANIAN MISSION
SEPTEMBER, OCTOBER 1953

Document A

Restriction on right to import into Zone, Panama to have privileged position regarding sales to Zone, limitation on operations of commissaries; restriction on manufacturing, processing, etc., in Zone; sales of surplus materials only to Panamanian Government; privileged position for Panama regarding sales to ships and ship repairs.

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[1] Drafted by Eldred D. Kuppinger of the Bureau of Inter-American Affairs. Addressed also to the Under Secretary of State

This is in line with basic Panamanian contention that U.S. Government sponsored economic activities in the Canal Zone have stifled the development of Panamanian agriculture, trade, and commerce and that Panama has been deprived of the benefits it should enjoy from its geographic situation.

Document B

Panamanian citizens employed by Zone agencies to be guaranteed treatment in all respects equal to U.S. citizens, i.e., equal pay, promotion opportunities, leave, pensions, etc.

Document C

Panama to have right to levy taxes on Panamanian employees of Zone agencies who reside in Panama or who reside in Zone; also to tax private enterprise in Zone.

Document D

Panamanian flag to fly alongside U.S. flag in Zone, and on commercial vessels transiting Canal; Spanish and English to be official languages in Zone.

Document E

Panama Railroad Company activities to cease in Panama; its properties, assets and other rights in Panama and those of any other agency of the United States to become property of Panama (except Madden Dam).

Document F

Formation of Mixed Commission to formulate plans and take measures for civil defense throughout the Isthmus—i.e., Canal Zone and Panama. All costs, except salaries of Panamanian members, to be borne by the United States.

Document G

United States to cease issuing consular exequaturs. Panamanian exequaturs to be recognized in Zone.

Document H

United States to grant duty-free import quotas on 11 Panamanian products, namely:

a) refined cane sugar, b) alcohol and liquors (derived from sugar cane), c) coffee, d) meat, e) hides, f) shrimp, g) cacao, h) vegetable oils, i) copra, j) vegetable fibers, k) cashew nuts.

Most of these products are not now in production sufficient to permit export. This is obviously an effort to gain an assured market in advance of increasing production.

Document I

Annual payment of 20% of gross toll receipts, with guaranteed minimum of $5,000,000.

Document J

Construction of port and docks at Colon for benefit of Panama. Thereafter all cargo transshipments to be made through these facilities.

Document K

Full access to Canal Zone docks, lower wharfage costs, elimination of travel tax and any discount enjoyed by any U.S. Government agency from any ship line operating to or from Panama, development of Free Zone and exemption from U.S. taxes for any U.S. company operating therein, and stimulation of tourist traffic ($500 duty exemption).

Document L

Stimulation of U.S. private investment in Panama by exempting profits of U.S. investors from U.S. taxes.

Document M

Elimination of 1903 Treaty restriction on construction of inter oceanic railways and highways by Panama.

Document N

United States to construct, within 5 years, bridges or tunnels at Atlantic and Pacific ends of Canal and to afford corridors in those regions to Panama—corridors and bridges or tunnels to be under Panamanian jurisdiction.

Document O

Establishment of Mixed Tribunals to handle civil cases in Zone involving Panamanians.

Document P

United States to give up present treaty right to prescribe sanitary ordinances in Panama City and Colon and, if necessary, to enforce compliance therewith; limitation of such authority to Canal Zone and Madden Dam area. United States to furnish water for Panama City and Colon at fixed rate.

Document Q

Use of Panamanian postage stamps in Zone, to be purchased at discount.

Document R

Panamanian customs authorities to have free access to vessels arriving at Zone to examine persons and cargo destined for Panama; jurisdiction over Panama registered ships arriving at Canal; construction of customs houses in Zone for Panamanian customs and immigration officials use.

Document S

Recognition by the United States that treaties concerning Canal Zone do not affect Panamanian sovereignty over that territory.

Document T

Reference of controversies respecting any and all U.S.–Panama treaties to International Court of Justice.

Document U

Termination of present treaties 99 years from date of this agreement. Thereupon, new treaty to be drawn up under which Panama will recognize the United States as concessionary of the Canal.

611.19/11–753

Memorandum by the Acting Secretary of State to the President

CONFIDENTIAL WASHINGTON, November 7, 1953.

Subject: Relations between the United States and the Republic of Panama

I refer to your memorandum of September 29 to the Secretary of Defense[1] concerning certain complaints of President Remón of Panama.

These complaints are for the most part not new; most of them are the subject of agreements, and of continuing discussion, since 1903. On the whole, it can be said that the Canal Zone authorities have taken all reasonable steps to guard against the abuses mentioned, often without corresponding cooperation by the Panamanian authorities. The specific complaints made to you by President Remón are one-sided. I have discussed these in brief detail in the accompanying attachment.

These complaints are among those under study by an Interdepartmental Committee, established upon the initiative of the State Department. This Committee has the task of formulating the United States position on the issues which the Panamanians are raising in the conversations, now under way in Washington, on the whole field of United States–Panama relations arising from the construction and operation of the Canal. A genuine effort will be made to reach fair and just solutions, as you have directed.

While President Remón presented the Panamanian side solely, I believe that there are a number of steps which might be taken by this Government which would, without sacrificing any of our basic rights in the Zone, go a long way toward removing current Panamanian dissatisfactions. Among these might be listed the transfer to Panama of certain lands no longer needed for the operation and/or protection of the Canal and its auxiliary works, increased purchases from Panama, closer adherence to our commitment to pursue a policy of equality of treatment and opportunity for Panamanian labor in the Canal Zone, fulfillment of our commitment to build a bridge or tunnel, to be under full United States jurisdiction, at the Pacific end of the Canal, and the granting to Panama of the right now prohibited by treaty to tax Panamanian citizens employed in the Canal Zone. I shall place before you certain recommendations when the current conversations have progressed to a point where such a step is feasible.

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[1] *Ante*, p. 1421.

The Department of the Army has concurred in this memorandum.[2]

W.B. SMITH

[Enclosure]

COMMENTS ON ISSUES RAISED BY PRESIDENT REMÓN

1. *Establishment of the Panama Canal Company.*

The reorganization of the Panama Canal Company was the result, not of a desire to make the operation free of control from Washington, but of a study by the Bureau of the Budget which recommended certain organizational changes with a view to putting the Canal on a business-like basis. In its report to the President of the United States in 1950, the Bureau of the Budget recommended that the operation of the waterway and all related business enterprises be transferred to the Panama Railroad Company, a United States Government-owned corporation operating as an adjunct to the Canal and already conducting most of the business enterprises related to the Canal. This recommendation was transmitted to the Congress by the President with his approval, and implementing legislation was enacted in 1950, becoming effective on July 1, 1951. The Company was renamed the Panama Canal Company.

The Panamanians apparently fearful that the word "company" implied a commercial enterprise, formally protested the new organization in March 1953, as indicating the intention of this Government through such reorganization to escape fulfillment of certain treaty obligations to Panama. The Panamanian protest was rejected on the grounds that it is for the Government of the United States to determine which agencies or instrumentalities are appropriate for the exercise of its rights and the performance of its obligations. At the same time, the Panamanian Government was assured that it does not seek in any way to avoid fulfillment of its treaty obligations to Panama. The Secretary of the Army, under delegation of authority from the President, gives continuous and close personal supervision to the operations of the Company and the Canal Zone Government with respect to basic policies and selection of officials.

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[2] The original State Department draft of Oct. 5, 1953, included "elimination of sales of foreign luxury items in Canal Zone stores" in its list of possible concessions to the Government of Panama. The Department of the Army objected to this point, which was subsequently deleted in the final memorandum. There were several other changes in wording. (Letter by Earl D. Johnson, Under Secretary of the Army, to Mr. Cabot, dated Nov. 3, 1953, 611.19/11-353)

2. *Sales to Ships.*

The sale of supplies to ships passing through the Canal, which President Remón alleges to be a violation of the spirit of the treaty, is in fact expressly authorized in a note accessory to the 1936 Treaty with Panama. Panamanian suppliers, however, are permitted and encouraged to participate in this market, and the Panama Canal Company, for the express purpose of permitting Panamanian merchants to compete, imposes a special surcharge on many items sold by the Panama Canal Company to such ships.

3. *Commercial Competition.*

The United States is pledged to regular and continued opportunity for conference and exchange of views on this question. A joint commission is maintained in an endeavor to suppress smuggling from the Zone into Panama. The Zone also maintains a costly system of checks to insure that only duly authorized persons purchase at the commissaries and PX's, where prices are lower than in Panama. Undoubtedly some purchases in the Zone are made by authorized persons for friends and relatives who lack the privilege, and it is virtually impossible to control such transactions in the home. The Panamanian Government, on its part, has never adopted or enforced measures complementary to those of the Zone. The Panamanians aspire to the elimination of the commissaries and PX's, and a monopoly of the Canal Zone market. Such a step, however, under present circumstances would work a hardship on Zone personnel by placing them at the mercy of price-gouging merchants in Panama. However, as long as prices in the Canal Zone are cheaper than those in Panama, this problem will continue to be an irritant in United States–Panama relations. Imports into the Zone are duty-free, with resultant lower retail price, because the Canal Zone is outside the customs area of the United States and by treaty is not subject to Panamanian duties.

One source of complaint in this field is in the process of liquidation. The supply and storage yards formerly maintained by contractors on military reservations in the Canal Zone are being discontinued. The Government of Panama had pointed out that such yards were susceptible for use as bases of contraband operations.

4. *Panamanian Taxation of Panamanian Employees of the Canal Zone.*

The right of the Government of Panama to impose taxes on persons employed in the Canal agencies was expressly relinquished by Panama in the 1903 Treaty. This restriction appears to work an undue hardship upon the Republic, since many of these persons enjoy the benefit of Government services from the Republic. The matter of permitting Panama to tax its citizens residing in Panama or the Canal Zone, as well as United States citizens working in the Zone but residing in Panama, is being explored by the United States agencies concerned.

Eisenhower Library, White House Central files, Confidential file

Memorandum by the President to the Secretary of Defense (Wilson)[1]

CONFIDENTIAL [WASHINGTON,] February 26, 1954.

On the occasion of the visit of President Remon of Panama last fall I issued jointly with him a statement on October 1, 1953[2] stating in part:

> "We have equally agreed that inasmuch as the two countries have a mutual and vital interest in the work of the Panama Canal, the principle of equality of opportunity and treatment must have full effect in regard to the citizens of Panama and the United States employed in the Canal Zone as set forth in the exchange of notes of March 2, 1936 on this subject and that wherever circumstances should be found which in any manner interfere with the observance of that principle, appropriate measures will be taken by the United States."

The Department of State informs me that prolonged consultation with the Department of Defense has failed to bring agreement. In order to give effect to the joint statement, and apart from the matter of the applicability of the note accessory to the 1936 Treaty, I believe that the Department of Defense should promptly take steps necessary to enable our negotiators to inform the Panamanians that we are prepared to give effect to the following objectives:

(1) The merging of the present dual-wage systems into a single-wage scale and uniformity in treatment of non-American labor;
(2) Have this new single scale and uniformity in treatment apply to all United States Government agencies operating in the Canal Zone; and
(3) Have whatever retirement system finally adopted applied uniformly to non-American employees of all Government agencies in the Zone.

We should be in a position to make this announcement to the Panamanian Delegation prior to the opening of the Caracas Conference on March 1st. If you have real objection to the formulation of such policies, please see me at once.

DWIGHT D. EISENHOWER

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[1] This memorandum was drafted by Mr. Kuppinger except for the last sentence, which was presumably added on by the President (memorandum by Under Secretary of State Smith to the President, dated Feb. 15, 1954, 611.19/2–1554).

[2] For complete text, see Department of State *Bulletin*, Oct. 12, 1953, p. 487.

611.1913/2–2754: Telegram

The Ambassador in Panama (Chapin)[1] *to the Department of State*

SECRET NIACT PANAMA CITY, February 27, 1954—2 p. m.

223. Foreign Minister Guizado told me last night, that Remon telegraphed President Eisenhower yesterday, asking that he instruct Mr. Dulles to intervene personally in Panama–United States negotiations.[2] I expressed some surprise at this end-run. Guizado explained Remon wished to leave no stone unturned to solve impasse and that this procedure implied no lack of confidence in Embassy.

Guizado went on to say that Panamanian Government regarded United States offer of 1 million a year for 10 years, as completely unacceptable and even insulting.[3] Panama of course, could not accept a penny of such a hand out, particularly in view Remon's oft repeated declaration that Panama wanted justice, not alms.

During our two-hour conversation, Guizado, of course, ran gamut of Panama's well known complaints, emphasizing demand that Panama be given percentage (20 percent was figure mentioned) of canal company's "gross profits".

In conclusion, Guizado stated categorically that unless Washington talks took quick turn for better, Remon had decided to withdraw Panamanian negotiators with fanfare.

While statements, such as those made by Guizado last night, contain some elements of bargaining and bluff, I am forced to conclusion that Remon and Guizado are serious in their threat to break-off, dramatically, negotiations unless Panama obtains something considerably more substantial. It cannot be over emphasized that these substantial gains to which Panama aspires are not only material, but psychological in character. Remon is so deeply committed politically to Panamanian public that I fear that failure in Washington would be only first step towards what might develop into a violent nationalism, i.e., anti-Americanism by his administration or its successor, if he forced to resign.

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[1] Selden Chapin replaced Mr. Wiley as U.S. Ambassador to Panama on Jan. 22, 1954.

[2] President Remón telegraphed that he was availing himself of President Eisenhower's suggestion, made during Remón's visit to the United States in September 1953, that he bring to Eisenhower's personal attention any difficulties arising in connection with the negotiations. In view of the U.S. negotiating team's rejection of several Panamanian proposals, he specifically requested that Eisenhower permit Secretary Dulles to grant an interview to Panamanian representatives while in Caracas, so that they might be able to explain in person the Panamanian Government position. (611.1913/2–2754)

[3] The U.S. Delegation to the U.S.-Panamanian talks made this offer on Feb. 23, 1954, in lieu of an increase in the annuity (Department telegram 167 to Panama City, dated Feb. 23, 1954, 819.00 TA/2–2354).

Strongly urge immediate re-examination our position regarding payments supplementary to annuity with emphasis on possibility of percentage "share" of gross tolls without guaranteed minimum.

Department will no doubt bear in mind desirability forestalling break during Caracas Conference.

CHAPIN

Eisenhower Library, Eisenhower papers, Whitman file, Administration series

Memorandum by the Deputy Secretary of Defense (Kyes) to the President[1]

SECRET WASHINGTON, 27 February 1954.

I refer to your letter dated 26 February 1954[2] in which you mentioned three points regarding United States Armed Services wage and retirement policies in the Canal Zone. Mention was also made of a desire to announce a change in these policies to the Panamanian Delegation prior to the opening of the Caracas Conference on 1 March 1954.

The request of the Panamanian Government for changes in the wage policies of the Armed Services in the Canal Zone is presently under consideration in this Department. I wish to assure you that the Department of Defense regards these matters as being of considerable importance and we fully appreciate the significance of maintaining excellent relations with our Panamanian neighbors. In this connection, there are a number of factors of profound importance to the Armed Services and the United States Government generally, which I believe should be brought to your attention. The more important of these factors follow:

1. The establishment of a single U.S. pay schedule for U.S. and non-U.S. citizens employed by the Services in the Canal Zone conflicts with the world-wide policy of the Armed Services of paying non-U.S. citizen personnel liberal wages based on local prevailing rates.
2. Adoption in the Canal Zone of U.S. wage rates for non-U.S. citizens would have world-wide implications. The Services employ hundreds of thousands of non-U.S. citizens throughout the world and pressure would certainly be brought to bear which would result in a tremendous increase in the operating costs of the Services.
3. The Panamanians have indicated they do not desire persons of other than U.S. or Panamanian nationality to receive pay based upon U.S. rates. However, the United States employs a significant number of personnel of other nationalities in the Canal Zone against whom there should be no discrimination.
4. The 1936 Accessory Notes make no mention of the establishment of a single U.S. wage schedule, but rather provide for equality of opportunity and treatment. The Services have followed this principle.

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[1] The ribbon copy of this memorandum in the folder entitled "Wilson, Chas. E." at the Eisenhower Library is signed by Deputy Secretary of Defense Kyes; the Department of State file copy has Secretary of Defense Wilson's name typed on the signature line (611.19/5-354).

[2] Presumably the memorandum of that date, p. 1429.

5. The establishment of a single wage schedule such as that proposed by the Panama Canal Company would require legislative changes. For example, the Civil Service Classification Act would require amendment.

6. The Department of Defense agrees that a uniform retirement system should apply to non-U.S. citizens employed in each foreign area. This problem is under consideration by the Kaplan Committee and it is believed action should await its recommendations.

In view of the foregoing, it is my considered opinion that action at this time on the points mentioned in your letter would have a significantly adverse effect on the overseas operations of this Department. Accordingly, it is recommended that we not act on this matter prior to the Caracas Conference.

ROGER M. KYES

611.1913/3–454: Telegram

The Ambassador in Panama (Chapin) to the Department of State[1]

CONFIDENTIAL PRIORITY PANAMA CITY, March 4, 1954—4 p.m.

227. Because of carnival, this morning was first opportunity to see Remon re position set forth his telegram February 26 to President Eisenhower (my telegram 223 February 27).[2] I had asked for appointment stating that I would be glad if President could give me any further information or if I could be of any assistance in clarifying Panamanian position to my government. Fortunately I was able to deliver President Eisenhower's message to Remon (Deptel 177 March 3)[3] who expressed appreciation President's prompt reply and said he had every confidence President and Secretary Dulles would carry out encouraging declaration regarding Panama's aspirations which they had made to him at time his visit to states. Remon said course of negotiations in Washington so disappointing that he had availed himself of President Eisenhower's invitation to appeal directly to him.

Although I endeavored elicit specific points of complaint it apparent that it was alleged general US approach which perturbed Remon. He said it was not merely that US attitude was negative but that this negation seemed based in almost every case on unwillingness to accept Panamanian proposals even as basis for discussion. He called for documents just brought by courier from Washington and opened them in my presence. These referred to US comments on paragraph 1 to 4 of Panamanian document A "Panamanian Participation in Canal Zone

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[1] Repeated to the U.S. Delegation at Caracas.

[2] *Ante*, p. 1430.

[3] In his message, President Eisenhower indicated that he was pleased to have Secretary Dulles discuss matters pertaining to the Panama Canal with Remón's representatives in Caracas. He stated that he believed substantial progress in the negotiations was being made in an atmosphere of cordiality, and that he was confident that the talks would result in adjustments of mutual benefit to both countries. (Department telegram 177, dated Mar. 3, 1954, 611.1913/3–354)

Market". He said these and, as another random example, our attitude toward Panamanian shipping illustrated US unreceptiveness.

I then inquired whether he had received any word of US attitude on return of certain properties outside Canal Zone citing this as instance of what I considered generous US attempt meet Panamanian wishes. Remon said he had received nothing on this and inquired whether this was connected with request for use Rio Hato area and whether we wanted that land for military base or for maneuvering area. I assured him Rio Hato desired only for maneuvering area but that he should shortly receive proposed draft agreement. I remarked that it was probably encouraging for Panama that our army felt it needed Rio Hato area since this indicated there was no immediate intention make substantial reduction in zone garrison and should be source of continued economic advantage to Panama.

During course our interview Mrs. Remon telephoned from Caracas saying *inter alia* that Secretary Dulles had promised receive Guizado and others of Panamanian delegation before his return to US in order discuss Panamanian treaty revision. It is perhaps not without significance that Remon became obviously excited when at one moment he thought Guizado was going to see Secretary alone and insisted to his wife that Foreign Minister be accompanied by other members delegation. In conclusion President Remon stressed that Panama's dissatisfaction not engendered solely by US refusal to increase annuity and disappointing US counter offer of economic assistance nor did it spring from any other specific point. Panama's disappointment he declared was basically due "generally unsatisfactory tenor of discussions". I replied that while I could appreciate that from his point view all Panama's demands important it might be useful if he were to indicate to me some few issues to which he attributed especial significance so that I could better explain Panama's position to my government. I remarked casually, that we had referred to a log jam but that it was always important to break out the first three or four logs. Remon seemed to accept my suggestion and said he would have conference "with some of his people" after Caracas meeting with Secretary Dulles and hoped therefore next week he might be able to pass on to me informally his views on some of most outstanding issues.

CHAPIN

Cabot files, lot 56 D 13, "Panama"

Ambassador John J. Muccio of the United States Negotiating Team to the Assistant Secretary of State for Inter-American Affairs (Cabot)

CONFIDENTIAL — WASHINGTON, March 5, 1954.

DEAR JACK: Kupp and I have sat here the last couple of days doing a bit of "self-criticism". Result attached.

We have gone a substantial distance toward meeting Panamanian aspirations. Panama will never be contented. We can hope only to have them satisfied for the time being. I feel very definitely that if we can avoid being *used* by individual Panamanian politicians and can make progress in solving the pending main problems we will be able to bring these negotiations to a reasonably successful conclusion.

I hope to see Roderick and the Governor again soon, using this memorandum as a basis for further discussion of our remaining problems.

Sincerely yours,

All the best to you

JOHN

[Enclosure]

CONFIDENTIAL [WASHINGTON,] March 5, 1954.

Subject: Review of Panamanian Negotiations.[1]

The basic approach to the consideration of the Panamanian proposals has been a firm stand against any derogation of our fundamental treaty position in the Zone. There is no disposition to give ground on that score although many of the Panamanian proposals are aimed at that goal.

The Department of State, however, feels strongly that it is in the national interest, in promoting the security of the Canal, to make such adjustments as can be made in Panama's favor as do not prejudice the U.S. position or discriminate against our personnel residing in the Zone.

Many of the positive steps we are considering taking vis-à-vis Panama should have been taken voluntarily by us over the years rather than to hold fast until Panamanian resentment reached a high emotional pitch. To do these things all at one time and at Panamanian urging has given rise to the superficial impression that we are making great concessions to Panama. Such action takes on another face, however, when it is considered that we are, in large part, discharging recognized obligations, rather belatedly in some instances.

Our relationships today with Panama would undoubtedly be better if we had taken steps on our own initiative long since to reduce the irritation arising from the competition with Panamanian commerce as results from the manufacture or processing of consumer goods in the Zone; we should have endeavored to broaden our purchases in Panama; we should have given greater consideration to the commissary problem; we should have taken steps to implement more completely the commitment we made in 1936 with respect to Panamanian labor in the Canal Zone (this matter is still pending inter-agency agreement); and we should have fulfilled before now the bridge/tunnel commitment we assumed in 1942.

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[1] The source text indicates that this document was seen by Deputy Assistant Secretary of State Woodward and Messrs. Sowash and Burrows of the Office of Middle American Affairs.

To do so even at this relatively late date will still serve to improve our relations but the favorable impact would have been much greater had we done these things voluntarily and more seasonably.

In addition, we are now prepared:

a) to accede to the Panamanian request concerning the levying of income tax on their nationals who are employed by Zone agencies. This provision of the 1903 Treaty is now an anachronism and equity clearly dictates its repeal.

b) to enter into an arrangement by which Panama can more effectively compete in the sale of certain ships' stores to ships transiting the Canal.

c) to turn over to Panama certain parcels of land to which the United States holds title in the Isthmus which are no longer essential for Canal purposes, together with improvements where they exist, all without cost to Panama. In some cases title to these lands was acquired by purchase and not by condemnation under the 1903 Treaty. Thus, this gesture takes on substantial proportions in view of the considerable value of the lands and improvements. The requests we are making in return are modest and involve very little cost to the Panamanian Government. On balance this gesture weighs very heavily in Panama's favor, and the United States can properly assert that it has acted with generosity in this case.

d) to meet—indirectly—the request for an increased annuity by agreeing to seek Congressional approval for an economic aid program involving the expenditure for jointly-approved and financed projects of up to $20 million over a period of ten years in lieu of a direct increase in the annuity. It is generally agreed that the present annuity figure is inadequate; the principal question we have had to consider is what would be the most desirable way to handle the matter. Considerable sentiment has been expressed against a direct increase in this payment and the economic aid program was evolved as a desirable substitute. Panama, however, is very much dissatisfied with our proposal in this regard. To them the annuity is an important symbol; is it something tangible in the way of benefits accruing to Panama from the Canal which is understood by everyone. It may well be the case that we shall have to review our thinking on this matter largely from the point of view of the political implications which are tied to this question.

Purchasing policies, limitations on commissaries, elimination of competitive manufacturing and processing in the Zone, sales of ships' stores, labor policy, income tax, transfer of lands and the annuity payment are tangible matters on which we have made, or hope to make, adjustments which will move toward meeting in varying degrees those of Panama's aspirations which we consider justified.

Less spectacular perhaps, but nonetheless important in that Panamanian sensibilities are involved, are the adjustments we are prepared to make in the field of intangibles. Income tax jurisdiction can be included in this category also since we will remove an impediment which has prevented Panama from exercising the normal tax powers of a sovereign nation with respect to non-U.S. employees of Zone agencies; also included in this category are our willingness to waive our monopoly rights with respect to the construction of trans-Isthmian railroads and highways; and our disposition to give up our treaty right to exercise jurisdiction over sanitary matters in the terminal cities.

We can point to these actions as proof of our willingness to make adjustments in our relations where changing circumstances have altered the situations which originally gave rise to special grants of authority and where no question of our fundamental position in the Zone is concerned. While we can and should take full credit for displaying an enlightened outlook in this regard, we may also admit among ourselves that such action is no more than we feel it desirable to take in our long range national interest under the precepts which guide our international relations.

The Panamanian proposals, when originally received, gave rise to a considerable degree of puzzlement on our part since many were predicated on the Panamanian theory of limited jurisdiction on the part of the United States in the Zone with reserved jurisdiction remaining with Panama. As the Panamanians well know, we reject this theory completely and hold to the position that our status in the Zone is clearly set forth in Article III of the 1903 Convention which confers on the United States "all the rights, power and authority . . . (as) if it were the sovereign" to the entire exclusion of the exercise by Panama of such rights. The Panamanians who prepared their proposals were fully aware of this divergence of interpretation and, unless they thought they could catch us unawares, they must have known that acceptance by us of proposals predicated on their theory was completely out of the question. Therefore, on a scoreboard basis they could have foreseen that the negotiations would end with Panama on the short end of the score, comparing proposals accepted against those rejected. Now it is also known that several persons closely identified with these negotiations on the Panamanian side have political ambitions which might be furthered if President Remon had to take the responsibility for failure to obtain significant success in attaining Panamanian aspirations. A complete failure of these negotiations could conceivably result in Remon vacating the presidential office—an event which might not be to our interest. A new president, if not particularly well-disposed toward the United States, coming to power on the wave of a tide of resentment toward the United States would inevitably result in strained relations between the United States and Panama—the very thing we are seeking to avoid.

We believe that even though some of the Panamanian proposals have been loaded—intentionally or not—with requests which are unacceptable to the United States, the result of the negotiations can be shown to be, on balance, favorable enough to Panama that fairly informed public opinion can be satisfied if, in addition to those tangible and intangible adjustments we are prepared to make, we can resolve the three important remaining problems: (*a*) the annuity payment, (*b*) treatment of Panamanian labor in the Zone, and (*c*) ease Panamanian keen disappointment at the limited degree to which we are prepared to limit manufacturing and processing and sales practices in the Canal Zone, and especially at our reluctance to give any formal commitment in this regard.

The annuity matter could possibly be solved without too much difficulty by bringing the figure up to $2 million, the amount we had in mind for the economic aid program. In fact, by so doing, we may save $430,000 per year.

The labor problem, however, requires an alteration of attitude on the part of the Defense authorities. If they persist in their adamantly negative position on this question, the result of these negotiations will remain in jeopardy with attendant dangers insofar as our long range relations with Panama are concerned.

811F.411/3-2354

The Secretary of State to the Ambassador in Panama (Chapin)

PERSONAL AND CONFIDENTIAL [WASHINGTON,] March 17, 1954.
EYES ONLY

DEAR SELDEN: When I was in Caracas, a considerable amount of interest was aroused by statements by Senora Remon that the United States was practicing racial discrimination in the Canal Zone. The implication was that this was something more than a question of "equal pay for equal work" which is being discussed up here.

Would it be possible for someone in the Embassy, without letting it be known, quietly to gather for transmittal on a strictly confidential basis what the facts are in this respect.

I might say that there is interest in this in the highest quarters.

If it cannot be done on a strictly confidential basis, just let me know and I will approach the matter otherwise. Possibly you already know enough about the situation yourself so that you could at least give me a preliminary fill-in.

Sincerely yours, JOHN FOSTER DULLES

811F.411/3–2354

The Ambassador in Panama (Chapin) to the Secretary of State

CONFIDENTIAL
OFFICIAL–INFORMAL

PANAMA CITY, March 23, 1954.

DEAR FOSTER: In reply to your letter of March 17[1] regarding the racial discrimination in the Canal Zone, I hasten, as you suggest, to give you the following "fill-in."

I am afraid there is little doubt that there has been, since the beginning of the construction of the Canal, discrimination in the Canal Zone against non-U.S. citizens. The Panama Canal Company, the Canal Zone Government and the Armed Forces divide their civilian employees into two general categories: U.S.-rate and local-rate workers. It is to be noted that the U.S.-rate group contains not only highly qualified technical personnel and office workers but also skilled artisans and even manual workers, whereas the local-rate group, although containing some minor clerical personnel, is largely composed of manual workers, both skilled and unskilled. These two groups were originally established, for payroll purposes, as the "Gold" and "Silver" rate groups, but the present terminology was put into effect as the result of the McSherry Report, referred to later, dated 1947. The grouping has, however, acquired secondary meanings of segregation and racial discrimination since, with very, very few exceptions, all U.S.-rate workers are white U.S. citizens. On the other hand, local-rate workers are predominantly black West Indians or their descendants. U.S. raters receive higher pay for corresponding jobs, i.e., a U.S.-rate truck driver will receive almost double the wages paid to a Panamanian or West Indian truck driver. In addition, the U.S.-rater enjoys a 25% differential applied to his salary.

The division into payroll categories has in practice segregated the local-rate (West Indian or Panamanian) worker from the U.S.-rate (white) worker and to some extent has limited his opportunities for advancement. Local-rate workers live in special communities and use separate schools, recreational facilities, commissaries and motion picture theatres, etc. In Gorgas Hospital, for example, washrooms are plainly marked "U.S. Rate" or "Local Rate" as the case may be. Since Panamanians, regardless of color, are with a few very notable exceptions employed in the local-rate group, there is some confusion in Panamanian discussions of discrimination as to whether such discrimination is racial (color) or national. It is to be observed, however, that there are some Panamanian citizens employed in the U.S.-rate group, in offices, PX's, commissaries and even as doctors and surgeons in the hospital. Theoretically there is no bar against the employment of Panamanians or, for that matter, West Indian negroes, in U.S.-rate positions, and we have repeatedly, since construction days, assured the Panamanians that we intended to give them equal opportunities with American citizens. In practice, however, the employment officers and the AFL union here have alleged in the past, as an excuse for failing to employ more Panamanians, that they were not sufficiently well trained for the more technical U.S.-rate jobs. This, it may be noted in passing, is somewhat inconsistent with the Union's frequently-expressed fears that if they should let down the bars many of their jobs might be taken away from them by Panamanians at lower salaries.

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[1] *Supra.*

In fairness, however, to the Canal Zone personnel management, it should be pointed out that the local-rate wage scale in the Zone is, nevertheless, higher than the wages generally paid in Panama for similar services. For example, recently when the Hotel Washington in Colon, formerly run by the Canal Zone Government, was leased to a Panamanian company, that company promptly made a general cut in the wages of the hotel staff. I understand that similar cuts were made in the wages paid to truck drivers and other workers in the Sanitation Department when garbage collection in the cities of Panama and Colon was turned over to the Panamanian Government.

The Panamanian attitude with regard to West Indian negroes was rather succinctly stated in an article by Professor John Biesanz in "Phylon, the Atlanta University Review of Race & Culture," Vol. XI, No. I, 1950:

> "Nor is Panama greatly concerned with the plight of her adopted children. Panamanian protests against discrimination in the Zone, loud as they may be when diplomats are bargaining for their country's advance, are in part negated by two factors:
>
> "First, most of the silver workers are West Indian immigrants and their descendants. Panamanians regard them as an out-group, culturally different and economically competitive, and have prohibited further immigration of English-speaking Negroes. They feel no racial solidarity with them; few Panamanians will admit their Negro blood, if indeed they are conscious of it. They resent being lumped with this out-group by the caste system of the Zone. They do not want the system abolished; they consider it quite good enough for the West Indians. What they do want is upper-caste status for themselves on their own soil.
>
> "Second, Panamanian government officials do not really want wages raised. Members of the traditionally privileged group, they shudder at the thought of what a substantial raise in the Zone would do to their own labor market. They have brought private pressure to bear on Zone officials not to raise wages to any great extent.
>
> "Thus, West Indian exploitability, Panamanian nationalism, and American race prejudice, assisted by the inertia of a going bureaucracy, have all tended to encourage persistence of the Zone dichotomy."

In 1947 Brigadier General Frank J. McSherry, Ret., prepared for the Governor of the Canal a secret report on "Alleged Discrimination in Treatment of Citizens of Republic of Panama and Alien Employees of Panama Canal, Panama Railroad Company," which sets forth in detail various aspects of discrimination and segregation in the Canal Zone. With only minor exceptions (I have noted the change in designation of Gold and Silver rates to U.S. and local rates) his observations are still true today. A copy of this report is understood to be on file in the Department.

More recently, the Embassy sent in a despatch, No. 84 of July 30, 1953,[2] on the treatment of Panamanian labor in the Canal Zone, discussing the obligation of the United States toward Panamanian workers and the problems arising in the fulfillment of that obligation, including the existence of separate wage scales for local-rate and U.S.-rate employees, the extent of employment opportunities for Panamanian citizens, varying personnel practices of the U.S. agencies in the Canal Zone and the problem of racial discrimination.

In conclusion, I may say that Panamanian thinking on the question is certainly fuzzy. I do, however, feel that in addition to any tangible benefits which we may be prepared to offer Panama as a result of the conversations now taking place in Washington, it is most important that we offer something along the lines of a reasonably decent solution for their demand for equality of treatment for Panamanian labor. This seems much more important to me than the commissary problem, particularly from the point of view of Panamanian prestige.

With all kindest regards,

Sincerely yours,

SELDEN CHAPIN

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[2] Not printed (811F.06/7–3053)

611.19/2–2654

The Secretary of State to the Secretary of Defense (Wilson)[1]

CONFIDENTIAL [WASHINGTON,] March 25, 1954.

DEAR MR. SECRETARY: The point has now been reached, in the negotiations which are currently being carried on between representatives of this Government and representatives of the Government of Panama, where the Panamanian Delegation has been informed of the present United States position on all principal points raised by Panama with one exception: the question of treatment of Panamanians employed by United States governmental agencies in the Canal Zone.

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[1] Drafted by Ambassador Muccio.

It is becoming increasingly imperative that this Government's position on this question be communicated to the Panamanian Delegation at an early date. This is a matter which has been under the active consideration of representatives of our respective Departments since June of last year. As noted in this Department's letter of January 18, 1954,[2] the dual-wage system and other inequalities constitute the most conspicuous and long-standing single irritant in United States–Panama relations. I consider it essential to our national interest that prompt remedial action should be taken by the employing agencies in the Zone to mitigate this situation.

Certain suggestions along this line were embodied in the above-mentioned letter of January 18, 1954, which I consider should merit your favorable consideration. It would not appear that there is any fundamental reason why the dual-wage system cannot be abolished and uniform personnel policies and retirement provisions applied by the three Armed Services and the Panama Canal Company-Government. Mr. Kyes appears to have the impression, which he revealed to General Smith, that the President had conceded, in the course of the conversation at the White House on February 27[3] in which Mr. Kyes and I participated, that the Defense Department should attempt to reorganize its systems for treatment of employees all over the world at the same time that it remedies the situation in the Canal Zone. I think the President's memorandum to you of February 26[4] indicated his concurrence in the need to carry out his commitment to President Remon when the two met in the White House and was later incorporated in the two Presidents' joint communiqué of October 1, 1953. I believe that the systems in the Canal Zone should be equalized without awaiting such sweeping world-wide reorganization to avert the possibility of having the negotiations now under way blow up on us.

There has, I believe, been some misconception of the effects of the changes that have been suggested. Elimination of the dual-wage systems would simply involve a combining and dovetailing of the existing two wage schedules and would not in itself increase Panamanian wages. The obvious existence of two different wage scales has had a very undesirable psychological effect, and a large part of this disadvantage could be eliminated by a single scale. This, with uniformity of treatment by all United States agencies, would be the minimum which would carry out the commitment made by President Eisenhower in September.

It has been necessary to give negative replies to a large number of the Panamanian requests which are unacceptable because they would impair our fundamental position, constitute a detrimental relinquishing of treaty rights, or involve special treatment or heavy expenditures for which we see no justification or obligation. On the other hand, in my opinion, there are enough important items on which we can take favorable action as to constitute a sufficiently handsome package to bring the negotiations to a mutually satisfactory conclusion if the problem of the treatment of labor can be resolved.

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[2] Not printed (611.19/1–1854).

[3] No record of this conversation was found in Department of State files.

[4] *Ante*, p. 1429.

I feel strongly that we should not lose the opportunity to better United States–Panama relations by further delay in dealing with the labor problem. This is the only remaining principal item on which a United States position has not been expressed in these negotiations. Our inability to express a position is now resulting in a lapse in the negotiations. A prolonged lapse, resulting from indecision on this point, will serve only to exaggerate the importance of this item and to increase irritations resulting from the existing situation. Prolonged silence on this subject is tantamount to a negative reply and may well result in a failure of these negotiations with consequent serious effects on relations between the United States and Panama. I, therefore, urge upon you the importance of agreeing very soon to a satisfactory position with respect to this matter as advanced in the President's memorandum of February 26.

Sincerely yours, JOHN FOSTER DULLES

611.19/5–354

The Secretary of Defense (Wilson) to the Secretary of State

CONFIDENTIAL WASHINGTON, May 3, 1954.

DEAR MR. SECRETARY: I refer to your letter dated 25 March 1954[1] regarding the status of discussions currently being carried on between representatives of this Government and the Government of Panama. I fully concur with your concern as to the need for expeditious action in this matter.

Regarding the point made in your letter on the matter of the pay policy followed by the United States Armed Services in the Canal Zone, it appears to me that there are certain basic considerations that must be clearly understood if the discussions with the Panamanian Government are to be concluded in a manner satisfactory to the United States. The employment of non-US citizens by Department of Defense agencies has world-wide implications and it is neither practicable nor advisable to disassociate our policies in the Canal Zone from those in effect in other parts of the world. In this connection, I wish to point out that this Department is not contemplating the reorganization of its world-wide personnel pay policies for non-US personnel. The establishment of a single-wage scale for all personnel employed by the Armed Services in the Canal Zone would establish a precedent and would have an immediate serious impact by the application of pressure from non-US citizen groups employed by the Armed Services in other parts of the world.

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[1] *Supra.*

As you know, it is the policy of the United States Armed Services to pay non-US personnel liberal wages based on local prevailing rates. It is believed that this policy is proper from the US economic viewpoint and is least likely to cause economic problems to other governments.

The 1936 Accessory Notes do not mention the establishment of a single-wage schedule for all personnel employed by US Government agencies in the Canal Zone. The notes do, however, set forth the principle of equality of opportunity and treatment of Panama and United States citizens employed in the Canal Zone and this principle is applied by this Department.

It is my understanding, as the result of our meeting with the President at the White House on 27 February 1954, that the President agreed in substance with the position of this Department regarding payment of non-US personnel. A copy of the Department of Defense position in this matter is attached for your information.[2] The original of the memorandum was left at the Whte House following the discussion.

To my knowledge, no mention was made of a single-wage scale for personnel employed in the Canal Zone in the discussions between the President and President Remon in Washington or in their joint communiqué issued on 1 October 1953. Assurances were given with respect to equality of opportunity and treatment, but in my view this does not imply a single-wage scale.

I wish to assure you that this Department regards the matter of a satisfactory settlement to the labor questions in the Canal Zone as being of extreme importance and recognizes the necessity of maintaining excellent relations with our Panamanian neighbors.

Sincerely yours,

C. E. WILSON

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[2] The attached document was a copy of Kyes' memorandum to the President, dated Feb. 27, 1954, p. 1431.

363/5–3154: Telegram

The Ambassador in Panama (Chapin) to the Department of State

SECRET PRIORITY PANAMA CITY, May 31, 1954—1 p. m.

324. The substance Department circular telegrams 442[1] and 443[2] communicated this morning to President Remon and Foreign Minister Guizado.

President appeared impressed with gravity situation and listened attentively, interrupting now and then to ask clarification of points. He appeared concerned over exact interpretation clause within parentheses of point two recommendation and inquired whether US alone would undertake concrete action regarding detention and inspection of ships and other means of transport. When I stated my understanding this clause was intended for general action by all American states he offered no comment.

Remon stated Panamanian position on Communist penetration amply set forth in his several statements and that Panama recognized seriousness of threat and prepared in principle support US in any measures to prevent spread Communism this hemisphere and to preserve peace and security therein and particularly in any measures deemed necessary for the defense of the canal.

As respects the specific proposal of the US outlined to him today, he could say that in principle Panama was in favor of hemisphere side consultative meeting, but that he would prefer to study four points of proposed resolution before giving definite answer as to Panama's views.

Remon stated, however, that while he did not specifically object Montevideo as site proposed meeting, it was his personal feeling that some place nearer to focus of infection might be more effective. He based this observation on belief that Uruguayan and other governments well to the south could not feel as directly menaced by or concerned with situation in Guatemala and would not have picture as clearly in mind as if their representatives were meeting somewhere closer to Guatemala. Guizado suggested Miami might be more convenient spot, but it was clear to me that although unspoken thought of Panama as site was in forefront their minds. President also seemed somewhat mystified that meeting would not take place until early July. Guizado remarked at this point that there might be difficulties in getting some of South American countries in line.

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[1] In circular telegram 442, dated May 29, 1954, the Department suggested holding a consultative meeting in Montevideo under Article 6 of the Rio Treaty of 1947 to consider the recent Communist penetration in Guatemala. The telegram outlined the major points which should be included in a resolution and the leading arguments which should be made to induce Latin American governments to support it. (363/5–2954) For text, see p. 1149.

[2] Department circular telegram 443, dated May 29, 1954, provided in some detail the reasons why the Department regarded the recent shipment of arms from the Soviet bloc to Guatemala as a threat to Central America (414.608/5–2954).

President stated he hoped to be able to give me definite answer by tomorrow when he was going out of town for his birthday.

In response to my inquiry re present state of previous discussions re meeting of CA Presidents based on Figueres' proposal, Remon stated he had agreed to send a special personal representative, possibly his brother, to meet with Figueres for a discussion of matters of general interest, and specifically to find out what Figueres had in mind. He added Figueres has stated his problem with Nicaragua would in any case not be a subject of discussion.

Remon did not know whether Salvadoran or other Presidents had been invited to do likewise.

CHAPIN

611.19/6–554

The Secretary of State to the Secretary of Defense (Wilson)[1]

CONFIDENTIAL [WASHINGTON,] June 5, 1954.

DEAR MR. SECRETARY: I refer to my letter of May 13, 1954,[2] concerning the question of the treatment to be accorded Panamanian labor employed in the Canal Zone, a matter which is the most crucial point under consideration in the current discussions between representatives of the Government of the United States and the Government of Panama.

As indicated in my letter under reference, it was the intention of this Department in replying to that section of the Panamanian memorandum of May 14[3] dealing with the labor question, to confirm that it was not intended that local employees of the Armed Services be included within the single wage system contemplated by the Canal Company-Government. It was added, however, that if Panama should return formally to the matter it might become desirable to review the question.

The Panamanian reaction to this position was expressed at the meeting held on May 20. The relevant extract of the transcript of that meeting is enclosed.[4]

It is clear that Panama will not willingly accept the position which has been expressed by this Government on this matter and that unless the United States position can be more nearly accommodated to the Panamanian position this subject will remain as a point of serious irritation in Panama–United States relations. In fact, if this matter cannot be more satisfactorily resolved, I doubt whether these discussions can be brought to a successful conclusion. I consider it of the utmost importance, especially in view of recent developments in that critical area, that all semblance of discrimination in employment practices in the Canal Zone based on nationality and/or color be removed. So long as a dual wage system is maintained in the Canal Zone by any agency of the Government of the United States, we are vulnerable to such charges and provide our enemies with material on which they can capitalize to the detriment of our position and prestige in that area and throughout Latin America.

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[1] Drafted by Mr. Kuppinger.

[2] Not printed (611.19/5–354).

[3] Not found in Department of State files.

[4] This extract contained a statement by a member of the Panamanian Delegation arguing against the institution of a dual U.S. policy in the Canal Zone which, while eliminating wage discrimination for Panamanian employees of the Canal Company, would preserve it for workers employed by the Armed Services (611.19/6–554).

I therefore recommend to your most favorable consideration a choice of one of the following possible courses, either of which I believe would provide a satisfactory solution of the problem:

a) That Armed Services agencies in the Canal Zone contract for their local personnel from the Panama Canal Company, thereby according such employees the same conditions of employment as those to be enjoyed by Canal Company employees. This would free the Armed Services from possible embarrassment elsewhere on the grounds of deviation from their uniform employment practices abroad since the Armed Forces would not be the actual employer, or

b) That the Armed Forces take the position that the Canal Zone situation is unique in that such a situation does not exist elsewhere in the world. Thus employees in other areas abroad would have no sound basis for demanding similar treatment on the ground of uniformity.

This subject is to be discussed again in the very near future with the Panamanian Delegation. I earnestly hope that this matter will be accorded renewed consideration by your Department and that you will find it possible to take the decision to adopt one or the other of the courses of action outlined above.

Sincerely yours, JOHN FOSTER DULLES

363/6–754 Telegram

The Secretary of State to the Embassy in Panama[1]

SECRET PRIORITY WASHINGTON, June 15, 1954—8:40 p. m.

263. Department awaiting Panama's definitive reply (urtel 331)[2] re acceptability text proposed resolution Depcirtel 459 as revised in ac-

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[1] Drafted by William G. Bowdler of the Office of Regional American Affairs, Mr. Jamison, and Mr. Leddy, and approved by Assistant Secretary Holland.

[2] Telegram 331 from Panama City, dated June 7, 1954, stated that Foreign Minister Guizado was unable to give a definite reply as to the acceptability of the resolution text transmitted in Department circular telegram 459, dated June 5, 1954. It noted that Guizado's own reaction was that the wording was "rather strong" and that the text was tantamount to a declaration of war since it imposed a blockade. (363/6–754) For text of circular telegram 459, see p. 1157.

cordance Depcirtel 482.[3] FYI to date eleven Latin American Governments have made specific commitments. End FYI. Tactfully determine whether or not Panama approves draft resolution. Department confident Remon Government's firm anti-Communist stand will be reflected in its effective cooperation in present problem of Guatemalan Communism, which is the most clear-cut and challenging manifestation of Soviet intervention in the Western Hemisphere to date.

However, Panama's delay may be due to (1) its interest in linking cooperation with U.S. on this problem with favorable outcome Panama's claims in present negotiations with U.S.; or (2) possible Panamanian fear proposed resolution may work to detriment of Panama registered shipping. You may in your discretion use following with Foreign Minister and President if either of foregoing factors are in Panamanian minds:

(1) Way will be cleared for more intensified efforts to solve Inter-American economic problems once critical immediate political problem of Communist penetration in Guatemala is settled. Substantial progress on Panamanian negotiations has been made, but presentation of any concessions re Canal Zone for Congressional approval would be unthinkable to this Department if Panama withholds vote against Communism in Guatemala. (2) U.S. Government already conferring with 13 European maritime states over effective measures to prevent further arms shipments to Guatemala; and all have received our request sympathetically, some have proposed voluntary action of their own, and none considered proposal as discriminatory against their shipping. You may also state four Central American Governments (El Salvador, Honduras, Nicaragua and Costa Rica) have accepted text resolution.[4]

DULLES

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[3] Department circular telegram 482 contained certain changes in the original text resulting from a State Department conference with representatives from nine Latin American states (363/6–1354).

[4] The Embassy reported back in telegram 354, dated June 16, 1954, that the Panamanian Government had accepted in principle the text of the proposed resolution (363/6–1654).

611.19/6–1754

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] June 17, 1954.

Subject: Annuity Payment to Panama

Discussion:

The last two meetings with the Panamanian Delegation in the current review of relations with Panama have dealt exclusively with the annuity question. The Panamanians have made it very clear that they regard this as the paramount issue in these talks. They hold that to the Panamanian people the annuity is the symbol of the benefit which Panama derives in return for the grant made by Panama to the United States for the construction of the Canal.

The head of the Panamanian Delegation, an able lawyer, recognizes that Panama has no legal right to demand an increase in the annuity. However, as is to be expected, they advance elaborate legal arguments to support their claims for an increase.

The Panama Canal Company and the Department of the Army are inclined to favor an increase in the annuity. Ambassador Chapin also strongly supports an increase. In view of the importance attached to this matter by both the Government and people of Panama, I concur provided that our legal position in this matter can be properly safeguarded. I feel we can qualify an increase so as to protect our legal position. I am convinced that failure to reach an agreement on the annuity question will jeopardize an overall settlement in these talks.

I think that an offer from us at this time, *provided* that the Panamanians in writing recognize and admit that they have no legal right whatsoever to an increase, would substantially improve our bargaining position. I am not at all sure they would accept it; but it would define the issue as being a disagreement, not on money, but instead a disagreement as to Panama's legal right to re-open this treaty.

Recommendation:

That you approve an offer of an increase in the annuity on the condition that Panama specifically recognizes (1) that it has no legal right to an increase or to re-open any article of the treaty and (2) that the increase is granted solely as an act of grace on the part of the United States Government with no recognition of any responsibility.

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[1] The source text contains the following notation by Mr. O'Connor: "Secretary and Holland discussed this—17 June—and agreed on a modified course of action."

Holland files, lot 57 D 295, "Panama, 1954"

The Ambassador in Panama (Chapin) to the Assistant Secretary of State for Inter-American Affairs (Holland)

SECRET OFFICIAL–INFORMAL PANAMA CITY, June 25, 1954.

DEAR MR. HOLLAND: From the meagre reports that percolate South to the Embassy and to the Commander-in-Chief Caribbean it would appear that the rebel movement in Guatemala is not meeting with much success and, in fact, is apt to disintegrate at any time. From what we can gather Castillo Armas hazarded everything on the belief that the population would rise and that a substantial portion of the Guatemalan Armed Forces would defect. This apparently has not been the case so far. It would seem to make little practical difference whether this is because of loyalty or mistaken patriotism or whether as is probably the case the peasants, workers and soldiers have not been impressed with the possibility of a successful revolt and are therefore just plain scared. From my own experience behind the Curtain I would doubt extremely whether sincere belief in communist ideology plays much of a part except for the leaders in the Guatemalan Government.

It is no use "crying over spilt milk", beyond expressing some regret that the expedition was not better organized and better timed. Whether the rebels had or have any support from unofficial American sources I do not know or wish to know. If so, it is to be regretted that such support was not greater and more intelligently directed. In any event, however, I feel sure that it would be impossible to persuade the average Latino that the rebel forces did not have some backing official and unofficial from the U.S. I say this as a result of conversations with Panamanians and Latin American Diplomatic colleagues who are apparently friendly to us and are deeply concerned with the march of events in Guatemala. If this be true of such intelligent and well informed and well disposed, how much more true it must be on the part of the man in the street not to mention the professional Yanqui hater?

It is perhaps gratuitous of me to remark that human reactions are very often illogical in that they sometimes run opposite to ones own interest. There are very few real communist sympathisers in these countries but there are a great many people who descend from generations long influenced by a belief in the superiority of Latin culture to that of the Anglo-Saxon and who have been indoctrinated since birth with the fear of Yanqui imperialism and jealousy of the Colossus of the North. While these catch words have happily passed out of current language in most Latin American circles the sentiment and interest which engendered them remains latent ever ready to come to the surface. This is one reason why even among our friends I sometimes detect a certain well concealed satisfaction when the U.S. stubs its toe.

It is ironical that in this day and age we, as the greatest Democracy on earth, seem to find our friends in this area among the more reactionary dictatorships and some of our Latin American friends, particularly those to the South, have not been slow to seize upon it unquestionably is an additional source of this rising anti-American feeling since they continually throw at us that we do not practise in our Foreign relations what we preach.

Then there is another factor which might be mentioned. Although many of our Latin leaders complain that we do not give them enough economic support etc. they are well aware that they have been treated rather generously although in recent times perhaps they have not received as much of the gravy as has Europe. Nevertheless it appears to be a strong feeling—alas not limited to Panama—that big hearted stupid old Uncle Sam will, in the last analysis, come to the rescue financially if the screech is loud enough economically. In other words, they have a feeling that no matter how often we say no we will eventually come across. In this connection they seem to believe that the U.S. will tolerate almost anything because of its wish to be loved or, to put it in a negative sense its wish not to be hated. They are quite willing to work these two themes to the limit and I suggest that in doing so they build up a kind of contempt of what they feel is essentially a weakness in our international policy.

While I of course have no recent personal experience in Latin American sentiment to the South I confess myself disturbed by the newspaper reports from Chile, Argentina, Bolivia, and even our former staunch supporter Uruguay of their reaction to the Guatemalan embroglio. It seems possible to me that this anti-Americanism which is beginning to be noticeable here may have advanced even further in those countries to the South particularly those of Hispanic origin. In the other direction Guizado mentioned to me yesterday his concern over the reported attitude of the Ex-President Cardenas–Mexico, who is stated to have come out with some remarks strongly supporting Arbenz.

As I stated in mytel 375, June 23,[1] I have the feeling that no matter how the Guatemalan revolt comes out we will be blamed for having incited it and for supporting the rebels if, as seems likely, at present writing the Government should win out we will be faced with a situation which may be cause for the most extreme measures to put right. I cannot conceive that irrespective of right or wrong we could tolerate a full fledged Soviet satellite in such a strategic spot close to our own frontier and to the Panama Canal. I base this statement on the supreme and overriding policy which is that right of self preservation. While I am not prepared nor would it be my place to suggest at this time any active intervention by the U.S. in the Guatemalan struggle I think it would be only realistic to recognize that if the Arbenz Govt should win out we may eventually have to use such measures and if economic and other sanctions are not enough we may have to use force. I say this in full recognition of the gravity of my statements and after living with the problem for several days. The thought has also occurred to me that since blame is a relative term and we are already receiving blame for the situation in Guatemala that strong measures applied at this time if they almost have to be uni-lateral on our part or with the support our friendly Latin American countries may in the long run prove less damaging to our general interests in Latin America than would greater pressures and the use of larger forces at some later date.

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[1] Not printed. (363/6–2354)

In the meantime one thought occurs to me which I venture to pass on. It is one which could be considered as pressure only in an indirect sense but which I believe might be effective on Latin American opinion in this particular area although less so admittedly to the South. What I suggest is that consideration be given from primarily a political point of view to sending one entire North American Combat Division to the Panama Canal Zone. I suggest that the repercussions of keeping such a force "in being" as Old Naval strategists used the term it might have a very deterrent effect upon any active anti-American activities throughout Central America and if it were necessary throughout Northern South America. The existence of a trained, equipped force of this character kept with means of transport would be both a warning and an assurance of protection. As for the Panamanians needless to say they would be delighted from the purely profit motive!

I have not talked over this matter at length with General Harrison who as you know has just arrived, although when I briefly mentioned it to him Wednesday he was not unreceptive and promised to give the matter some study. I gather that in any event there are sufficient quarters left over from the large garrison here during the war to house such a body of men. I would think moreover that from a military point of view it might be good practise to have at least one U.S. Division trained in jungle or tropical warfare.

Summing up what I wish to make clear that I have no thought that this Division or whatever additional strength of the Forces down here might be effected would be used in active operations unless the situation should deteriorate even to a greater degree than I think possible but rather that such Forces would form what in the eyes of some of these countries would appear to be a *potential* expeditionary force of overwhelming strength.

With all kindest regards,

Yours sincerely,

SELDEN CHAPIN

Holland files, lot 57 D 295, "Panama, 1954"

The Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Panama (Chapin)

SECRET OFFICIAL–INFORMAL [WASHINGTON,] July 2, 1954

DEAR AMBASSADOR CHAPIN: Thank you very much for your letter of June 25, 1954,[1] regarding the Central American situation and your idea regarding a combat division for Panama.

As you will note from the press coverage, the Guatemalan situation is going along as well as might be expected. We are watching the situation closely.

The suggestion of stationing a full combat division in the Canal Zone would seem to have considerable merit. It would be a force readily available if its services were required in the area, an opportunity would be afforded for training in jungle warfare (a field in which U.S. forces have not heretofore been as proficient as might have been desired) and our relations with Panama should be benefited as the result of the economic shot in the arm the expenditures of the personnel of the division would give Panama. Presumably the division to be selected for this duty would be one already in being in the United States. The cost of stationing it in the Zone would probably not be appreciably higher than the cost of maintaining it in the United States so that it would not seem that this suggestion would result in substantial extra cost to the Government. There would, however, seem to be a matter of timing involved. If these additional troops were to be stationed in the Zone, their transfer to the Zone should be deferred until quiet shall have been restored to Central America in order to avoid giving rise to unwarranted inferences as to the reasons and motives underlying that action.

We will pursue the matter from this end and would appreciate any further comments you may have.

I wish to thank you for your good work regarding the proposed OAS meeting and the resolution.

Sincerely yours, HENRY F. HOLLAND

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[1] *Supra.*

611.1913/7–754: Telegram

The Ambassador in Panama (Chapin) to the Department of State

CONFIDENTIAL PANAMA CITY, July 7, 1954—2 p.m.

4. During call which Sowash and I made on him yesterday Guizado discussed with great frankness Panamanian attitude on present Washington negotiations. He expressed pleasure at great progress

made in recent informal talks and noted that material outstanding points had been narrowed to four—labor, annuity, commercial competition and economic assistance, upon which he was confident that given mutual understanding and cooperation agreement would be reached before long.

He figured conversations should be completed within two months and delegation would then return home for final instructions before drafting definitive text. Guizado said he inclined to belief he himself would at that point or sometime before finalizing go to Washington on a last exploratory visit.

Guizado then said that in addition to four points already mentioned there remained one more—that of sovereignty. Panama had its just aspirations for some recognition even if token in character in this matter. He referred to statements of Theodore Roosevelt, William H. Taft, Goethals, certain Supreme Court justices, etc. Panama by no means wished to put forward any claim to the exercise of sovereignty in zone or to anything which would interfere with operation and maintenance of canal but government felt it imperative that it should obtain in negotiations some minor concession which it could show to its people.

Both Sowash and I expressed disappointment that matter of sovereignty and jurisdiction should be brought up and stressed generosity of our offers to date in global sense, pointing out enormous value of concessions and material contribution to Panamanian economy and welfare. Guizado stated that US offers were generous, the land concessions he even described as "magnificent gesture". Parenthetically he referred to plot of land across from Embassy chancery as being ceded to US (I did not correct him and stated he hoped we might landscape it as a beautiful little park).

We both stated opinion very firmly and frankly, that US could not cede one iota on sovereignty or jurisdiction.

Guizado however returned to point of sovereignty, indicating that some unimportant concession such as our acceptance of Panamanian exequaturs for foreign consuls as applying to zone or even the flying of the Panamanian flag jointly with US ensign by ships transiting the canal would be sufficient prestige sop on sovereignty issue.

Meeting which took place at his house was most informal and cordial. Guizado took no umbrage at our frank statements regarding US attitude on jurisdiction. Nevertheless it is apparent to me that quite aside from very real material concessions we are prepared make, and since it is my understanding that we are not prepared to concede any point even if minor on sovereignty, we might endeavor to manufacture some apparent concession, however empty, which can be used by Panamanian Government as point of national prestige.

CHAPIN

611.193/7-3054

Memorandum of Conversation, by Ambassador John J. Muccio of the United States Negotiating Team

CONFIDENTIAL [WASHINGTON,] July 30, 1954.

Subject: Panama–US Discussions: Treatment of labor in Canal Zone

Participants: Secretary of Defense Wilson
Under Secretary of the Army Slezak
Assistant Secretary of Defense (Manpower) Dr. Hannah
Assistant Secretary of the Army Roderick
Vice Admiral Davis
Mr. Wheeless, Office of Assistant Secy Defense (Manpower)
Mr. Henry F. Holland
Mr. John J. Muccio

The problem of treatment of the non-Americans employed by the US Armed Forces on the Isthmus of Panama was reviewed in detail during the luncheon session. At the conclusion, Secretary Wilson instructed Assistant Secretary of the Army Roderick with the assistance of Mr. Wheeless to work out an employment policy for the Armed Forces on the Canal Zone parallel to that being evolved by the Panama Canal Company–Canal Zone Government. This involves a single wage scale and no discrimination on the basis of citizenship, race, or color.

During the course of the discussions, Secretary Wilson pointed out that he wanted no dragging of feet but that the Armed Forces should proceed right away and complete reclassification of positions, etc., by January 1, 1956.

Mr. Roderick and Mr. Wheeless will work up a position paper which Mr. Holland will use as a basis for presenting this to the Panamanian Delegation.

611.1913/8-1254: Telegram

The Ambassador in Panama (Chapin) to the Department of State

SECRET — NIACT PANAMA CITY, August 12, 1954—2 p.m.

40. Embassy wishes make following comments on Deptel 35 August 11[1] and Holland–Muccio memo August 7[2] received today.

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[1] Not printed (611.1913/8-1054).

[2] In the memorandum of conversation of Aug. 7, 1954, Mr. Holland directed that Panama be granted a $1 million annuity and a $1 million yearly grant for a development program (Holland files, lot 57 D 295, "Panama, 1954").

1. In view our inability grant Panama prestige demands re sovereignty and uniform single wage scale throughout zone,[3] believe mature reflection that annuity of only one million dollars plus one million annually for US administered economic development program is not sufficient to compensate for dropping overboard these demands and will prove bitterly disappointing to Remon Government and Panamanian people. It may well create serious political opposition to Remon personally and may force him into role of rabid nationalism if he is to stay in power.

2. Earnestly recommend Department (which I understand was prepared to raise economic development program to two million per year) reconsider position and add this sum to present annuity rounding out proposed figure to two and half million dollars per annum. Believe that even at this figure, we may have difficulty in concluding negotiations satisfactorily in aura of good will. I suggest this cheap price for insuring stable and friendly government here and affording example of just and generous dealings by US with its friends in Latin America.[4]

3. Have no other observations to make on other points of memo except note with some disappointment that no mention is made of low-cost housing project suggested by Embassy.

4. If suggested prohibition of Panamanian commercial traffic on proposed Trans-Isthmian highway has not already been mentioned to Panamanian delegation, see little use in risking possibility of riling Panamanian feelings over management of project not even in survey stage. Incidentally CARIBCOMMAND advises that funds for survey will presumably not be available before fiscal 1956.

Would greatly appreciate telegraphic summary when final decision has been reached as to labor, commissaries, et cetera, but Embassy in full agreement that these are best handled by unilateral declaration.

CHAPIN

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[3] The Embassy in Panama City had evidently not been informed of the Department of Defense's willingness to institute a single wage scale in the armed forces (memorandum of conversation, dated July 30, 1954, *supra*).

[4] The Department responded in telegram 40 to Panama City, dated Aug. 13, 1954, that subject to the final clearance of the Secretary of State it was prepared to increase the annuity by $1 million (to $1.43 million) in addition to an annual $1 million grant to Panama for 10 years to be spent on economic development projects. (611.1931/8–1254)

611.1913/8–1654

Memorandum by the Secretary of State to the President [1]

CONFIDENTIAL [WASHINGTON,] August 16, 1954.

Subject: Discussions with Panama

A point has now been reached in the discussions which we have been carrying on with representatives of the Government of Panama where we are prepared to give full and final replies to the proposals which Panama has presented for consideration.

I propose, subject to your approval, to present to the Panama Delegation the offers and requests summarized below as the totality of the United States position with reference to these proposals.

United States offers:

1. To increase the annuity by one million dollars, which would more than triple the presently agreed amount.
2. To seek legislative authorization to institute a single wage scale applying to all employees of the United States Government in the Canal Zone, together with other measures favorable to non-United States citizen employees of Canal Zone agencies.
3. To seek legislative authorization for the transfer to Panama of:

    a) Panama City railroad yard, with improvements,
    b) J. N. Vialette and Huerte de San Doval tracts and the Aspinwall tract on Taboga Island,
    c) Paitilla Point,
    d) Las Isletas and Santa Catalina Military Reservations on Taboga,
    e) Those areas of Colon known as de Lesseps, Colon Beach and New Cristobal, with improvements (with the exception of two lots in the de Lesseps area which the U.S. intends to use for consulate purposes),
    f) Railroad passenger station site and structure in Colon,
    g) Certain lands and waters on the coast of Colon,
    h) Lot in Colon now reserved for consulate purposes.

4. To seek legislative authorization to make grants for the economic development of Panama, particularly in the field of housing. This would be in addition to the Technical Cooperation Program administered by the Foreign Operations Administration.
5. To amend Article X of the 1903 Convention to enable Panama to levy income tax on employees of Canal Zone agencies who are Panamanian citizens wherever resident and on non-Panamanian, non-United States citizen employees residing in Panama.

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[1] This memorandum, drafted by Mr. Kuppinger, was sent to President Remón under cover of a letter from President Eisenhower, dated Aug. 23, 1954. In his letter to Remón, Eisenhower noted that the United States was not able to agree to those proposals which would in any way undermine the U.S. position relating to the Panama Canal or would involve large sums of money for projects which the U.S. Government felt went beyond its proper obligations. However, he stated his belief that the Panamanian President would find that the U.S. positions on all other Panamanian proposals were distinctly favorable to his country's legitimate interests. (611.1913/8–2354)

6. To exempt United States agencies in the Canal Zone from the scope of the Buy American Act, as a gesture of good will toward Panama and as further evidence of the desire of the United States to assist in all appropriate and practicable ways in the development of the Panamanian economy.

7. To extend the existing arrangement regarding sales of "sea stores" to sales of "ships' stores" and, in cooperation with Panama, to give greater effectiveness to that arrangement.

8. To seek legislative authorization and appropriations for the construction of a bridge or tunnel at Balboa, referred to in the 1942 General Relations Agreement.

9. To withdraw certain sales and service privileges in the Canal Zone from non-resident, non-United States employees of Zone agencies.

10. To make of record a declaration that in connection with the matter of the importation of items of merchandise for resale in the sale stores in the Canal Zone, it will continue to be the practice of the agencies concerned to acquire such items either from United States sources or Panamanian sources unless, in certain instances, it is impracticable to do so.

11. To terminate gradually certain manufacturing and processing activities in the Canal Zone.

12. To make of record a declaration that Canal Zone agencies in making purchases of supplies, materials and equipment will, so far as permitted under United States legislation, afford to the economy of the Republic of Panama full opportunity to compete for such business.

13. To waive the monopoly on the part of the United States for the establishment of any system of communication by railroad or highway across the Republic of Panama between the Caribbean Sea and the Pacific Ocean, with certain reservations.

14. To terminate that provision of Article VII of the 1903 Convention which has reference to the exercise of sanitary jurisdiction by the United States in the cities of Panama and Colon.

15. To give sympathetic consideration to Panama's request for the functioning of nautical inspectors in Canal Zone ports concerned with laws relating to vessels of Panamanian registry under conditions which would not prejudice the expeditious transit of vessels and which would be consonant with the jurisdictional position of the United States in the Canal Zone.

16. To give consideration to the feasibility of withdrawing from the handling of commercial cargo for transshipment on Canal Zone piers so soon as Panamanian port facilities are in satisfactory operation in Colon.

United States requests which are to be considered in conjunction with the United States offers:

1. Extension of post exchange privileges, on a limited basis, to visiting foreign military personnel of friendly nations.

2. Reduction of price of alcoholic beverages.

3. Termination of the obligation provided under Article XIX of the 1903 Convention regarding free transportation on the Panama Railroad.

4. Lease of certain property adjacent to the United States Embassy residence; preservation of the area in front of the Embassy office building as a park area.
5. Maneuver rights in the Rio Hato area.
6. Favorable consideration of certain proposals which the United States may wish to make relating to the use of a projected trans-Isthmian highway within the Canal Zone.

This over-all position has been coordinated with the interested agencies of the Government, as well as with the Congressional Committees particularly concerned with such matters. I believe that the position summarized above fully reflects your direction that Panama's proposals be treated fairly and generously and that we should seek mutually satisfactory arrangements that would, on the one hand, satisfy Panamanian aspirations and, on the other, protect vital United States interests in the Panama Canal. I am confident that the United States offers are generous to Panama and equitable to both Governments.

JOHN FOSTER DULLES

611.1913/8–2854: Telegram

The Ambassador in Panama (Chapin) to the Department of State

SECRET PRIORITY PANAMA CITY, August 28, 1954—2 p. m.

67. This morning I delivered President Eisenhower's letter and Secretary's memorandum to Remon.[1] He read them with deep concentration nodding his head in comprehension passing sheets to Guizado who was present.

President expressed general approval of terms of memorandum and indicated that he would like to proceed promptly with next phase. I told him that I had originally planned to fly to Washington to report and then go on leave, but that in circumstances I was not only willing but anxious to postpone leave indefinitely if I could expedite prompt settlement. I told him that telegram received this morning indicated Department desired drafting of final agreements be carried out here and that we had partial draft ready in Washington. He stated that he was in accord with this procedure and hoped I would ask that draft be sent down immediately so that work could begin.

I then told him that Secretary had suggested to Fabrega[2] that he would approve increasing annuity to total of $1,930,000 in lieu of Economic Aid Program.[3] Remon said that he inclined to feel this second additional increase in annuity preferable to economic aid. He rapidly got point that part of this increased annuity might be used as pledge for loan for housing and other purposes.

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[1] The President's letter transmitted the Secretary's memorandum, *supra*, to President Remón.

[2] Dr. Octavio Fabrega was a member of the Panamanian negotiating team.

[3] The Department advised the Embassy of this new offer in telegram 48 to Panama City, dated Aug. 27, 1954 (611.1931/8–2654).

President then said that occasion called for glass of champagne. In ensuing conversation Remon stressed desirability of winding up negotiations quickly adding that he would give me official view Wednesday morning September 1.

In this connection he said coming Assembly would be less inclined to play partisan politics than following session which would immediately precede elections. I believe in fact Remon desires speed conclusion negotiations so as to present signed treaty and completed agreements act at opening of Assembly October 1. Meeting extremely cordial throughout and Remon appears impressed and delighted with President's letter and Secretary's memorandum.

Chapin

Editorial Note

The first meeting to draft the proposed agreement was convened on September 13, 1954, and meetings continued throughout September and October, first at a high level including President Remón and Ambassador Chapin and subsequently at a lower level. In telegram 74, dated September 6, 1954, Ambassador Chapin expressed his disappointment that domestic political pressures in Panama had apparently obliged President Remón to name members of the official Panamanian negotiating team to draft the agreement in order to protect himself against the attacks of political enemies (611.1913/9–654). At the September 28 meeting, members of the Panamanian drafting team raised objections to the substance of several articles on which Panamanian and United States negotiators had previously reached tentative agreement in Washington (telegram 107 from Panama City, dated September 29, 1954, 611.1913/9–2954). The Embassy reported in telegram 157, dated October 27, 1954, that disagreement on the wording of several articles still persisted after the final meeting of October 26. The telegram continued that President Remón was having a letter drafted in response to President Eisenhower's letter of August 23, 1954, and that he planned to send Dr. Harmodio Arias to Washington to present the letter to Eisenhower in person. The Embassy indicated that Arias might make "one last desperate effort as personal appeal from Remon to Eisenhower for greater economic concessions", and expressed the hope that the President would stand firm. (611.1913/10–2754)

Memorandum Prepared in the Department of State[1]

CONFIDENTIAL [WASHINGTON, undated.]

MATTERS, THUS FAR NOT COMPLETELY RESOLVED, WHICH DR. ARIAS MAY BRING UP FOR DISCUSSION WITH THE PRESIDENT

1. *Article II, Treaty (taxation):*

The Panamanians object to the limitation of the scope of this Article to income tax alone. They wish it to be extended to cover "contributions or charges of a personal nature of any kind". This would conform to the terminology used in Article X of the 1903 Convention and give them complete tax jurisdiction over their citizens who are employed by Zone agencies rather than to have their jurisdiction limited to income tax.

They base their case on principle. They say there are no additional personal taxes presently in force to which these persons would become subject. We have thus far refused to consider broadening the scope beyond income tax, saying that their proposal is so vague and undefined that we cannot foresee what would be involved. They say that it is none of the business of the United States what personal taxes Panama may levy on Panamanians so long as this group is not the object of discrimination; a non-discrimination guarantee is embodied in this Article. In reply to our query concerning social security taxes, they have said such taxes are not considered "personal" but that they would be glad to insert a statement in the treaty to the effect that social security taxes would not come within its scope.

The Governor is inclined to be sympathetic with the Panamanian desire to be free of restrictions on the exercise of tax jurisdiction over their citizens but is apprehensive that broadening the scope of this Article might result in the levying of taxes which would complicate his labor relations problem. He seems to have in mind the levying of taxes under the Panamanian labor code—he has not been able to define precisely just what kind of taxes might be involved. His apprehension is based on distrust—that if given an opportunity Panama is likely to attempt to extend its jurisdiction into the Canal Zone; in this case by levying "personal" taxes upon employees which would include Panamanian employees of Zone agencies. In view of this apprehension the Governor does not favor broadening the scope of this Article.

2. *Article X (Zone highway)*

The Panamanians have refused to agree to our draft. They have proposed joint traffic control over this road. The Governor and CINCARIB will have none of this. Not only is joint traffic control unacceptable in principle (giving Panama a voice in a matter concerning Zone administration) but it is inconsistent with their concept of this road.

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[1] This document, presumably dated Nov. 8, was found in the files with the memorandum to the President, *infra*. (611.1913/11–954)

They point out that Panama has a trans-Isthmian road which we built for them and continue to maintain; that Panama has no just basis for complaint if we desire to construct a road within the Zone for our own use. They insist that this is a concession Panama must make.

It is not clear just how much emphasis Panama will place on this matter. We think that they will accept it rather than lose the Treaty on this issue alone. However, it is possible that Dr. Arias may bring this up with the President, claiming that it is inconsistent with our traditional close relationship for the U.S. to attempt to discriminate against Panamanian traffic on this road.

3. *Article XIII (reopening of treaties, etc.):*

Unless we are able to come to an agreement on a text of this Article prior to his call upon the President, Dr. Arias is certain to bring up this subject. He will take exception to any language which might lend itself to the interpretation that the treaties are "frozen" and to language which might imply that arguments based on *rebus sic stantibus* and equity cannot be brought into play in connection with proposals for the revision of the treaties.

4. *Item 10, Memorandum (nautical inspectors):*

The Panamanians take strong exception to the phrase "consonant with the jurisdictional position of the United States in the Canal Zone". They say that this would commit Panama to acceptance of the United States thesis on the question of jurisdiction in the Zone. The Governor admits this is so, saying that we would not enter into any arrangement which did not accord with our position on the jurisdictional question, therefore, this should be made clear in advance. He argues that if any doubt in this regard were permitted to arise we would lay ourselves open to charges of bad faith when we subsequently made it clear that any such arrangements had to conform with our jurisdictional thesis.

Our recommendation on this item is that if Panama continues to object, they be offered the alternative of deleting it from the Memorandum.

5. *Item 11, Memorandum (transshipment of commercial cargo at Colón):*

The Panamanians profess to attach a great deal of importance to this item and have remained insistent that our undertaking be expressed in more definite terms. Rather than saying that "consideration" will be given to withdrawing from this activity so soon as adequate Panamanian port facilities are available at Colón, they insist that we say that when such port facilities are available we "will withdraw".

The Governor is adamant in his refusal to enter into such a commitment. In fact, upon reconsideration, he has certain qualms about the undertaking we have already agreed to give the Panamanians on this subject. He is concerned about mixed cargo, especially that arriving on Panama Line vessels, where, for example, 90% of the cargo would be for the Zone and 10% for transshipment. He is apprehensive that even under the undertaking we have offered them we might have to move such ships from one pier to another; he is certain that this would be the case under the type of wording of the undertaking insisted upon by the Panamanians. Actually, we think we are safe under the present wording since "consideration" of the matter gives some leeway to allow for situations such as this. The type of undertaking desired by the Panamanians, however, would not give us any such leeway; we think the Governor's position is sound and should be supported.

Our recommended position, therefore, is that we are not interested in handling the commercial transshipment business over our docks and are perfectly willing for Panama to take it over; however, we must remain in a position to arrange for exceptions in cases where ridiculously high costs would be incurred in handling small amounts of cargo.

611.1913/11–954

Memorandum by the Secretary of State to the President[1]

CONFIDENTIAL [WASHINGTON,] November 9, 1954.

Subject: Appointment with Dr. Harmodio Arias

Dr. Arias, who has an appointment at 9:30 a.m. on November 10, will deliver President Remon's reply to your letter of August 23, 1954 which listed the Panamanian proposals on which this Government was willing to take affirmative action.

Further negotiations took place in Panama during September and October in an effort to draft texts on these subjects. For the most part agreed texts were arrived at. However, there are a few points remaining which are not completely resolved.

Dr. Arias will probably bring up these matters in the hope that he can prevail upon you to make immediate decisions on them favorable to Panama. Dr. Arias is an effective advocate and in presenting his side of the issues will give his case a considerable degree of plausibility. These disagreements, however, involve important questions of principle and policy. The Department of State, the Department of Defense and the Governor of the Canal Zone are agreed that the United States should maintain its position on these points.

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[1] Drafted by Mr. Kuppinger.

In view of the technical complexity of these questions, I recommend that you permit Dr. Arias to present his arguments but decline to commit yourself, saying that you will consider the points of view he has presented and will instruct the Secretary of State in the premises, and that such further conversations as may be required will be conducted under the direction of the Secretary.

Since Assistant Secretary Holland will conduct such further conversations as may be necessary, I recommend also that he be present during Dr. Arias' call.

I am enclosing a copy of your letter of August 23, 1954 to President Remon and a biographic sketch of Dr. Arias.[2]

JOHN FOSTER DULLES

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[2] Neither printed. Regarding the letter of Aug. 23, see footnote 1, p. 1456. The brief sketch noted that Arias, an expert on treaties, personally negotiated the 1936 treaty with the Roosevelt Administration. It continued that Arias, a political opponent of Remón, was made an adviser in order to forestall his active opposition to the Treaty. (611.19/11–1054)

611.19/11–1054

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)

CONFIDENTIAL [WASHINGTON,] November 10, 1954.

Subject: United States–Panama Treaty Negotiations

Participants: The President
Sr. Harmodio Arias, Adviser to the Remon Government on United States–Panama Treaty Negotiations
Assistant Secretary Henry F. Holland

Mr. Arias delivered to the President the original of a letter from President Remon[1] and an enclosure. The President read them and stated that the letter and enclosure raised a number of technical points upon which he was not sufficiently well informed to comment. Mr. Arias said that copies had been delivered to the Department of State. The President said that he felt sure that Secretary Dulles and those associated with him would work on these matters sympathetically. The President said that we valued highly our relations with Panama because our association in the Canal was one for eternity. He said that he personally liked Panama and liked President Remon and wanted all matters rising between us to be studied with interest and sympathy.

Mr. Arias said the points remaining for discussion between us, in his judgment, involved questions of phraseology rather than of substance.

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[1] Not found in Department of State files.

611.19/11–1054

Memorandum of Conversation, by the Ambassador in Panama (Chapin), Temporarily in Washington[1]

CONFIDENTIAL [WASHINGTON,] November 10, 1954

Subject: Dr. Harmodio Arias' Call On the Secretary

Participants: Dr. Harmodio Arias, Special Representative of President of Panama
The Secretary
Assistant Secretary Holland
Ambassador Selden Chapin

After an exchange of civilities, Dr. Arias stated he had delivered to President Eisenhower that morning a letter from President Remon in reply to one received last August from President Eisenhower. Dr. Arias said that the points remaining at issue in the draft of the proposed treaty and accompanying memorandum of understanding boiled down to seven of which only one was in the treaty draft. He felt that there was no essential difference in substance between the United States and Panama proposals, but rather a matter of wording. Panama simply could not accept certain provisions as worded in the United States draft.

The Secretary replied that he himself was of course not familiar with all the details, but confessed his disappointment if the whole subject were to be reopened as he had felt that negotiations had really terminated last August and that the United States proposals were eminently fair. We had gone a long way to meet Panamanian aspirations. He knew Dr. Arias was eager to return to his law practice in Panama, but suggested that a meeting be held between Mr. Holland and Mr. Chapin and Dr. Arias to see if points of disagreement could be worked out.

Mr. Holland said he was anxious to hear Dr. Arias' point of view, but that as the latter knew he had to leave town for the rest of the week, but would be back Saturday night. In view of the urgency of the matter and the fact he himself must leave for the Rio meeting in about a week's time, he suggested a meeting on Sunday morning unless Dr. Arias preferred to put off the matter until after the Rio conference. Dr. Arias accepted the offer to meet Sunday with alacrity. Later after leaving the office, Dr. Arias expressed to Mr. Chapin his doubts whether points of difference could be settled in one or even two meetings, but said it was worth while to make the effort.

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[1] Ambassador Chapin was in the United States for consultation and leave, Nov. 9–19, 1954.

611.19/11-1754

Memorandum by the Ambassador in Panama (Chapin), Temporarily in Washington, to the Assistant Secretary of State for Inter-American Affairs (Holland)

B CONFIDENTIAL [WASHINGTON,] November 17, 1954.

In the event of a breakdown in the treaty talks with Panama, should Remon decline to accept our global offer, it is possible that Panama may attempt some maneuver to galvanize Latin American opinion against the U.S. This might take the form of some appeal to the Organization of American States, to the UN, or World Court or a press campaign with or without organized mass demonstrations.

It is my understanding that we would counter any such propaganda attack with one of our own setting forth clearly and in detail the generous and understanding nature of our offers to Panama. I believe that even the most biased Latin American critic could find little fault with most of our concessions, but am somewhat concerned as to how much headway the Panamanians might make over old Article XII[1] or the revised alternates thereto given to Dr. Arias. I do not suggest that we should in fact depart from our position which is well grounded. Rather do I feel that irrespective of the rights and wrongs of this position, we should explore what effect a strong Panamanian protest, which might enlist Latin American public opinion and which would undoubtedly be exploited by Communist and other unfriendly elements, might have on our general Latin American relations. Undoubtedly the effort would be made to have us appear as the brutal domineering colossus attempting to cower a small, peace-loving and deserving nation with all the lies and exaggerations of which such a campaign is capable and with which unfortunately we have been so familiar in the past.

Undoubtedly you have taken into consideration the above possibility which could result in a setback to our whole Latin American policy. However, it occurs to me that should Remon refuse the treaty on the grounds of Article XII or its alternatives, we might, rather than risk the showdown, proceed with the other alternative—namely that of striking such language and that providing for an increase in the annuity and of offering direct economic aid. In your conversation with Arias no mention was made of the amount of such aid and the only figure, so far as I know, given to the Panamanians was ten million over ten years. If, as I understand from another Departmental memo, we are in fact prepared to raise this to twenty million over ten years, it might be useful if I were authorized to come forth with such a figure should the necessity arise. I should be grateful for your views.

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[1] Article XIII in the revised draft concerned the reopening of treaties, etc.

611.1913/11-1754: Telegram

The Chargé in Panama (Memminger) to the Department of State

CONFIDENTIAL PANAMA CITY, November 17, 1954—3 p. m.
PRIORITY

188. Guizado told me today in "strictest confidence" that both he and President Remon are entirely satisfied with new drafts of Article XII brought back by Doctor Arias. He added that on his return here Ambassador Chapin would have redrafts of paragraphs 1 of memo of understandings and Article X of treaty and that if these proved as satisfactory as anticipated he believed treaty could be signed next week.

While in optimistic mood Guizado admitted considerable irritation over apparent US intent to bar proposed Canal Zone road to Panamanian commercial traffic. He said he understood our desire to construct and preserve "strategic highway" but felt strongly there should be no pronounced discrimination against Panamanian trucks. He concluded he would offer no objection if "all commercial vehicles" were barred from highway.

I sought to convince Guizado re reasonableness of our views and believe he will go along regardless of what changes have been effected in now disliked article.[1]

MEMMINGER

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[1] On Dec. 17, 1954, President Remón accepted in his country's behalf the modified texts of the treaty and the accompanying memorandum of understanding, which incorporated several changes in wording subsequently approved by the Department of State (telegram 228 from Panama City, dated Dec. 17, 1954, 611.1913/12-1754). Both the treaty and memorandum were formally signed on Jan. 25, 1955.

PARAGUAY

UNITED STATES RELATIONS WITH PARAGUAY[1]

Editorial Note

On April 3, 1952, the Paraguayan Government made a payment of $34,372.82 to the United States Treasury in final settlement of obligations incurred under the Lend-Lease Agreement of September 20, 1941 (734.56/4–352). For text of the Agreement, see *Foreign Relations*, 1941, volume VII, page 480.

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1569 ff.

834.00/6-1052: Telegram

The Secretary of State to the Embassy in Paraguay[1]

CONFIDENTIAL WASHINGTON, June 19, 1952—6:57 p. m.

177. In view conflicting views of internatl org advisers and their polit repercussions (urtel 350)[2] Emb shld be especially careful not take any position re exchange rate system in discussion with Paraguayans. In accord regular practice US position will be made known by its rep in IMF. FYI only US has not yet formulated position it will take in Fund or re trade agreement and will not be able to do so until Paraguay submits specific proposal to IMF and US can appraise its implications.

However, Emb shld in its discretion inform Paraguayans that without prejudice to particular system they may decide adopt, use of an exchange tax or surcharge wld be violation of Paraguay's Trade Agreement with the US.[3] If, however, Paraguay has two or more explicit rates for imports without any taxes or surcharges, no violation of Agreement wld be involved. Emb shld make clear that this is mentioned as matter of info which might be of assistance in avoiding future problems re trade agreement.

ACHESON

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[1] Drafted and signed by Matilda L. Milne, Chief of the Exchange Rates Branch, Monetary Affairs Staff.

[2] In the referenced telegram, from Asunción, dated June 10, 1952, Chargé John C. Shillock, Jr., reported that recommendations made by an International Monetary Fund mission then in Paraguay with respect to revision of Paraguay's exchange rate system were opposed by certain Paraguayan Government officials and the UN Technical Adviser for Paraguay, Richard Behrendt (834.00/6–1052).

[3] Apparent reference to the Reciprocal Trade Agreement, signed at Asunción, Sept. 12, 1946, and entered into force, Apr. 9, 1947; for text, see 61 Stat. (pt. 3) 2688.

398.13/6–2352: Telegram

The Acting Secretary of State to the Embassy in Paraguay[1]

CONFIDENTIAL WASHINGTON, June 25, 1952—1:08 p. m.

180. Salvidar's impression that Fund approval of a country's exchange system overrides bilateral trade agreements is not correct (urtel 363 Jun 23).[2] US view is that tighter obligations of later bilateral agreement apply notwithstanding looser obligations of earlier multilateral agreement. Reasoning behind this is that provisions multilateral known when bilateral finalized and that parties to bilateral agreed to commitments more restrictive than those contained multilateral. US Exec Dir[3] reserved US rights under its Trade Agreement with Ecuador in IMF Exec Bd Mtg of Nov 30, 1950 with respect to certain proposals of Ecuador involving exchange taxes.[4]

BRUCE

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[1] Drafted and signed by Chief of the Exchange Rates Branch Milne.

[2] Not printed (398.13/6–2352).

[3] Frank A. Southard, Jr.

[4] Exchange rate modifications for Paraguay approved by the International Monetary Fund went into effect in August 1952. For information on this subject, see International Monetary Fund, *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1953* (Washington, 1953), pp. 83–84.

734.5 MSP/1–253

The Ambassador in Paraguay (Shaw) to the Department of State[1]

CONFIDENTIAL ASUNCIÓN, January 2, 1953.

No. 387

Ref: Department's Circular Airgram of November 24, 1952.[2]

Subject: Operation and Status of Program under Mutual Security Act—Quarter Ending December 31, 1952.

As this is the first quarterly report on the subject, discussion will not be confined solely to events of the fourth quarter of 1952 but will include certain background information providing a framework for subsequent reports.

A small land-locked country with a simple agricultural and pastoral economy, Paraguay's economic development has not progressed in relation to that of other countries of this area. The standard of living is low and conditions of poverty prevalent. Until three years ago it was notably politically unstable and the fact that no *coups d'etat* have occurred since then should not be taken to mean that underlying tensions do not persist. While of a remarkably homogeneous character, the population does not appear to possess the native intelligence and capacity, the educational background, and the drive which lead to progress in the economic sphere. Some prosperity was achieved during the war because of high prices for export commodities, and relatively large foreign exchange balances were accumulated. These have been dissipated and for a number of reasons, external and internal, Paraguay is now passing through a period of severe economic and financial stress.

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[1] Drafted by First Secretary of the Embassy John C. Shillock, Jr., with the assistance of Ambassador Shaw.

[2] Not printed; it requested reports from Mission Chiefs concerning the operation and status of programs under the Mutual Security Act of 1951 (700.5 MSP/11–2452).

For text of the Mutual Security Act of 1951 (Public Law 165), approved Oct. 10, 1951, see 65 Stat. 373.

Point Four type operations were begun in Paraguay in 1942 and from that date to July 1952 a total of 6.1 million dollars have been expended by the United States to carry out the program in Paraguay, operations considerably expanding since 1950. Leaving apart our wartime objectives, the purpose of our contributions is to achieve a stable and developing economy so that a vacuum does not arise which would have unfortunate economic as well as political repercussions on our long and short term interests in the River Plate area endangering the security of the hemisphere, and at the same time to combat any Communist penetration or extension of influence.

Paraguay is a truly under-developed country and provides a fertile ground for almost all types of Point Four assistance. The need for aid in the fields of education and public health, for instance, is virtually limitless. The execution of our program with limited funds and doubtless higher priorities in other areas must, however, necessarily be related to the degree of economic development which exists at present and which the country can reasonably be expected to achieve in the foreseeable future.

It must be said that progress in meeting our policy objectives in this country through the medium of Point Four is gradual but slow as it must necessarily be in a country of its degree of social and economic development. Paraguay is pathetically eager to escape from the economic morass into which it has fallen, but is in some doubt as to the measures to be taken to so do. In 1950, 1951, and 1952 it called upon the International Monetary Fund and the Federal Reserve Board for technical missions to advise it in the financial and monetary fields. In 1951 it made application for a loan from the IBRD and subsequently obtained $5 million[3] for the purchase of agricultural and road building equipment; high officials of the Bank state that this loan which is speculative in character would not have been granted had it not been that Point Four technicians were intimately working with the Paraguayans in the agricultural *servicio* and could render advice in carrying out the purposes of the loan. Thus far no purchases have actually been made; at the close of December bids were let for a considerable quantity of equipment. Subsequently in April 1952 there was established a National Planning Commission for Economic Development to formulate and integrate economic policies. The effectiveness of this Commission has yet to be proved. It has drawn up an "Economic Stabilization and Development Plan" approved this month for execution in calendar 1953. Its present plans envisage greater encouragement to investment of private capital, foreign and domestic, which is so greatly needed, and an amelioration of governmental controls on business and industry which have hampered the business community and facilitated as well graft and corruption by governmental officials in charge of these controls. In addition to these measures of self-aid, Paraguay has had recourse to other UN agencies for technical advice and assistance of a Point Four character.

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[3] The referenced loan was approved on Dec. 7, 1951; for additional information, see International Bank for Reconstruction and Development, *Seventh Annual Report to the Board of Governors 1951–1952* (Washington, 1952), p. 34.

The present Point Four program comprises major assistance in the field of agriculture and animal husbandry, the basis of Paraguayan economy, and to a lesser extent aid in public health and education. These are long-standing projects designed to supplement and support governmental measures in these fields. That such measures are often ineffective and imperfectly executed reduces the effect of our programs on the economy. The country's capacity to utilize the assistance being provided is influenced by factors inherent in the Paraguayan psychology: the inexperience and incapacity of many of those in positions of authority, the low state of public ethics and morality, the often over-riding influence of political considerations, et cetera. Given this condition, progress is not always rapid and certain specific projects have failed to have the successful results that were perhaps initially contemplated. A re-evaluation of the program in the light of ten years' experience is now being undertaken by the Point Four organization to bring it more into line with current objectives.

In addition to the three major fields of agriculture, education, and public health, assistance is also being given in the field of public administration (civil service, budget, taxation, land management, et cetera) and in more direct development programs such as hydroelectric power, mineral resources, transportation, et cetera. In the case of the former, the inertia that is encountered is formidable but there is evidence that our help is appreciated and is gradually being made effective. In the case of the latter, important studies have been made which indicate the possibilities and the lines of such public development schemes. The question of financing is important here if such projects are to be brought to fruition. The point has been reached when serious consideration must be given by the Paraguayan authorities to the possibilities of obtaining adequate financial support, either from domestic or external sources, for soundly conceived projects.

A factor in this situation to which the Point Four program has been attentive is the trend of the Government towards a degree of socialization As the economy weakened in recent years the inclination was to seek alleviation by the extension of State controls. It has been one of the objectives of Point Four in the fields in which it is working to endeavor to arrest and discourage this trend so that free enterprise may have the greatest possible exercise.

The attitude of the Government toward our aid program is one of great enthusiasm. The informed members of the Government deeply appreciate our assistance, recognize the benefits it might bring to the country, and would be greatly offended if it were restricted or withdrawn. Notable among these are President Chaves, Foreign Minister Ocampos, and the Ministers of Agriculture,[4] Education,[5] and Public Health.[6] In the carrying out of the program, relations with these officials have generally been harmonious and they are receptive to guidance and suggestions and eager within the limited abilities and capacities of the country to give it necessary support. In the public mind, Point Four and the three *servicio* operations have come to be accepted as among the facts of life and as integral parts of the Government. While criticism of specific projects may occasionally be voiced, the program as a whole receives approbation and no responsible, important sector of public opinion would be in favor of withdrawal. The Communist Party continues to subject it to violent bitter attack as might be expected, but its influence is certainly not great. The Liberal Party in exile derides the program as tending to give support to and maintain in office a minority party controlling an anti-democratic government, but its attacks are so obviously for the purpose of making political capital that, while they cannot be ignored, they can largely be discounted. The Embassy is confident that any party in control of the Government (other than the Communist) would strongly oppose any diminution in our Point Four program, particularly as it is recognized that if Paraguay is to be in a position to resist pressures from Argentina and to maintain its position it must endeavor to make itself economically strong by seeking assistance from the United States, the United Nations, or other sources.

With reference to the general provisions of Subsection 511 of the Mutual Security Act of 1951, the Embassy is of the firm opinion that the supplying of assistance to Paraguay strengthens the security of the

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[4] Angel Florentin Peña.

[5] Juan R. Chaves.

[6] Pedro Hugo Peña.

United States and promotes world peace. Paraguay has definitely aligned herself on the side of the democratic nations and avows every intention and desire to cooperate with us in achieving the objectives of a free world. In his Christmas message this year President Chaves expressed this attitude explicitly, declaring "The Government of the Republic interpreting the deepest sentiments of its citizens has concretely defined its position in this struggle which keeps men and people divided. Without hesitation and with decided democratic leanings Paraguay has expressed on every occasion it could its adherence to the principles of democracy and liberty and its tenacious opposition to all that bears relation to international communism". Its record in support of the position of the United States in international conferences and undertakings compares favorably with those of other Latin American countries. That it does not do more to give concrete material support to the sentiments it expresses is due to a number of factors, the principal of which is the backward state of its economy and people. Instances have been noted above of the decisive steps taken toward self-aid in the economic sphere: the plan to foment agricultural production through the medium of the IBRD loan, the establishment of the National Planning Commission; the embarking upon an ambitious colonization scheme designed to bring immigrants from Europe to settle upon and develop the land, among others. There is no question of its desire to help itself. The fact remains, however, that its efforts in this direction are in some cases mis-directed, improperly implemented, or badly administered so that their full effect is at times either lost or dissipated. To this extent, therefore, our Point Four program is vitiated and to have greatest validity must be viewed over the long term.

During the quarter under review some very effective work was done in meetings of the Joint United States-Paraguayan Commission for Economic Development in discussing current problems and coming to common agreement on them. The Paraguayan members, the Ministers of Foreign Affairs and Finance, regard the Commission as of great importance, and it is, as the meetings demonstrated, a useful instrument in reaching policy determinations. The Commission enjoys great prestige locally and it is a forum in which we can wield considerable influence. I believe it has further potentialities, and it is my desire to make of it a really effective body, serving as a clearing house on a ministerial level for Point Four problems of mutual concern. Likewise during this period, extension agreements covering the three *servicio* operations were negotiated and signed. While the United States contribution was increased only slightly, the Paraguayan Government substantially augmented its share (the devaluation of the *guarani*, of course, being a factor here) and it now contributes approximately 6.3

percent of its total annual budget to these operations in contrast to 4.3 percent in the previous fiscal year. In addition to these developments during the quarter, it may be reported that with the new incumbent in the Ministry of Finance, Dr. Guillermo Enciso,[7] who also sits on the Joint Commission, our several technicians working in the Ministry are finding a more cooperative attitude and feel that their recommendations and studies are being more effectively utilized.

The Point Four budget for Paraguay in fiscal 1953 is $1.5 million. The Embassy has come to the conclusion that under the present circumstances we have reached the maximum contribution we should make to the program in this country considering Paraguay's capacity to absorb our assistance and make effective use of it. With the expanded program now in effect for two years involving a substantial additional contribution over that of former years, we should carefully examine and are examining the program as it is developing with a view not to further expansion but to achieving the most effective utilization of our resources in the best interests of the United States and Paraguay. On the whole, the Embassy is not dissatisfied with the results obtained thus far considered in the light of the objectives and qualifications of the Mutual Security Act of 1951, believes that a certain tightening and reorganization of the program can profitably be made, and unless higher priorities exist in other areas would urge that there be no major diminution in funds for our program in Paraguay.

GEO. P. SHAW

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[7] Guillermo Enciso Velloso.

734.58/9-453

The Ambassador in Paraguay (Shaw) to the Department of State[1]

CONFIDENTIAL ASUNCIÓN, September 4, 1953.

No. 125

Ref: Embdes 97 of August 22, 1953;[2] Deptel 15 of August 21, 1953;[3] Embdes 124 of September 3, 1953.[4]

Subject: Request of Paraguayan Government for Extension of U.S. Military Mission Agreement for Four Years.

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[1] Drafted by Ambassador Shaw.

[2] Not printed; it concerned Paraguayan interest in an extension of the U.S. Military Mission Agreement (734.58/8–2252).

[3] Not printed; it instructed the Embassy to present appropriate notes to the Paraguayan Government with respect to an extension of the Military Mission Agreement (734.58/6–2653).

[4] Not printed; it contained a report on the status of the military mission in Paraguay (734.58/9–353).

The United States Military Mission Agreement signed on December 10, 1943[5] as extended, expires on December 10, 1953. The Paraguayan Government has asked for a further extension of this agreement for a period of four years. The request for the extension of the agreement makes no suggestions for changes in the text of the agreement. The request brings up a consideration of the advisability of recommending a further extension. It is thought advisable for the Department to have at hand the views of this office concerning not only the military but the political effectiveness of this mission during the ten years just past.

The real reasons why the Paraguayan Government wants a United States Military Mission can only be deduced from local knowledge and from Article 1 of the original agreement which reads as follows:

> "The purpose of this Mission is to cooperate with the Commander in Chief of the Armed Forces of the Republic of Paraguay and to serve as instructors at the Paraguayan Superior School of War and for such other purposes as may be agreed upon by the Chief of the Mission and the Commander in Chief of the Armed Forces."

The Paraguayan Government transmitted its Note No. 24 of June 13, 1953[6] to the Embassy, and at the same time informed its Ambassador[7] in Washington of the action it had taken instructing him at an appropriate time and in his discretion to follow up this request and to express to the Department an interest in the progress of it. The Foreign Office has sent Ambassador Boettner no instructions or communications on the subject since that time. It is understood that Ambassador Boettner did inquire about this matter on August 21, undoubtedly in accordance with the instructions he had received in June. The Foreign Office which had some difficulty even finding the file does not seem to be concerned about the progress of the matter except to express the hope that an extension may eventually be granted. During the informal conversation on this subject the Minister of Foreign Affairs was quoted as stating that should there be any negotiations on this matter involving changes in the text or revisions of the agreement, both he and the Commander in Chief of the Armed Forces[8] would prefer the negotiations to be carried out in Asunción.

A consideration of the ten years of experience with this mission in Paraguay; the knowledge of this Embassy of Paraguayan thinking and attitudes; the importance of the military elements in the political picture; the difficult financial situation of the Government; and, numerous other factors including that of personalities, lead to the following conclusions as to really why Paraguay may desire this extension:

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[5] For text, see Department of State Executive Agreement Series (EAS) No. 354, or 57 Stat. 1184.

[6] Not printed.

[7] Luís Oscar Boettner.

[8] Maj. Gen. Alfredo Stroessner.

The presence of a United States Military Mission lends prestige to Paraguay and, more particularly, to the Paraguayan military establishment. In the Paraguayan mind it shows to neighboring countries that the United States is backing the Government of Paraguay and the party in power, which remains in power largely because of the military.

The presence of the mission enables Paraguay *to say* that it is following United States military doctrine. It also, by Paraguayan thinking, justifies a claim that Paraguay is cooperating with the United States by accepting the military mission.

Paraguay has impressions also that it is easier to send officers to General Staff and similar schools in the United States, although this is not necessarily so, and the same thing applies to lesser ranking officers, cadets, mechanics, etc.

There crops up in conversations on this subject also a latent desire for Paraguay to get financial aid for the purchase of new and modern military equipment.

While Paraguay desires the presence of the mission, the authorities made it plain that they do not want the mission to extend its influence too far. The language of the present agreement is explicit that the officers are instructors and that is their well recognized field of activity. It is not desired that they get into the field of determining general policy in military instruction.

The stated United States objectives are set out in a confidential communication of the Department of the Army dated June 9, 1950 (AGAO–S 334 (29 May 1950) G3–M).[9] Subject: "Standing Instructions for the Operation of United States Army Missions in Latin American Countries."

The stated purposes follow with appropriate comment:

The United States Army Missions in Latin America are constituted for the purpose of promoting hemispheric security by assisting Latin American Governments in military affairs.

> *Comment:* The effect of the mission in Paraguay toward promoting hemispheric security at this time and through its limited operations and slight impact on the Government is very small. It is admitted that it might be advantageous to have the mission established here in case of another world crisis and when it might be desirous of bringing some additional pressure on the Paraguayan Government military-wise. It is an expensive precaution in the meantime.

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[9] Not found in Department of State files.

To foster friendly relations and strengthen the ties of Inter-American solidarity.

> *Comment:* The ability to do this depends in a large degree upon the personalities of the Chief of the Mission and his staff, their command of the language, their ability to mix with the population, their knowledge of the local situation, which pre-supposes close cooperation with the Embassy, all in addition to a high degree of technical ability. The relations of the present mission are friendly but not impressive, or particularly effective. It is seriously not believed that the amount of strengthening of the ties received justifies the considerable expense involved.

To occupy the field of military cooperation in Latin America and the exclusion of non-Western hemisphere participation and influence.

> *Comment:* The mission undoubtedly is occupying one segment of the field and the agreement itself probably would serve to prevent the establishment of a European mission. An existing agreement with the same terms and a mission half the size would accomplish the same thing. While it has been stated as a matter of policy that the United States Government does not object to other friendly Latin American nations establishing military missions in this country, the establishment, expansion, and operation of such missions have, from the correspondence, given us concern. This has been especially true of the willingness of Argentina to replace our influence in Paraguay at every opportunity. There are now two Argentine missions present—a military geographic mission, and military officers actually in charge of and instructing the police school. It is understood that a proposal for an Argentine naval mission is now under consideration. There is present a Brazilian mission about three times the size of the American mission which is operating on the level of combat troops rather than exclusively at general staff level where the United States mission operates. If the objective is to exclude a non-Western hemisphere nation, this might well be accomplished by leaving the field open to such a friendly nation as Brazil which has the same exclusive clause in its agreement as does the United States.

To increase the efficiency of Latin American forces by training their personnel in the military doctrine of United States military forces.

> *Comment:* The instruction given by the United States mission has, as stated above, been limited to the general staff level and has had little effect on the efficiency of the Paraguayan forces generally. Even in the general staff, the United States doctrine is largely a matter of paper organization and competent observers have reported that the office of the Chief of Staff, who is a graduate of courses at Fort Leavenworth, does not have his office organized in accordance with United States Army standards. There must be some eventual results of teaching ranking officers our methods, but they are not readily visible and it is quite certain that the net result is obtained at high cost.

To promote standardization of United States equipment and organization and to encourage the use of material of United States manufacture and design.

> *Comment:* Ten years of effort have resulted in equipping the Paraguayan army with just two 105-mm field howitzers. No other armament is of American manufacture. If material in its broad sense is contemplated, then it should be noted that such trucks and cars as are used are of American manufacture. There are various reasons for this situation, but the fact remains. It is doubtful if the Paraguayan Army will be in a financial position in the foreseeable future to re-equip any large part of its armed forces with United States material. This is the least important reason for the mission remaining in the field.

The above officially stated objectives of the mission did not include the factor of enlisting Paraguayan support of the United Nations and the United States in any foreign campaign. While the Government made a contribution of $10,000 to the Korean situation, it has consistently refused to make a definite statement as to whether Paraguayan troops might be available for service abroad, even if they were equipped, trained, transported, and armed by a friendly nation or nations.

Historical Comment

The Brazilian Military Mission appears to have come to Paraguay in May 1942.

The United States Military Mission signed its first agreement on December 10, 1943.

The Brazilian Mission continued to operate informally until August 3, 1948. When the agreement was signed, Ambassador Warren[10] sent his Note No. 85 of July 30, 1948[11] to the Foreign Office stating that this Embassy had no objection to the agreement with Brazil as proposed. In expressing this concurrence, it was understood that Article 3 of the Brazilian contract in no way cancelled or modified the provisions of Article 1 of the United States agreement in which the primary position of the United States Army Mission and its right to participate and work in any or all phases of Paraguayan military activity was established. The Paraguayan authorities have referred to this communication and have pointed out that, as a matter of fact, the Brazilian mission was in the country and operating before the United States mission and for some five years with its tacit consent, at least without any objection, and that in expressing its agreement for the signing of the Brazilian contract it did not violate Article 20 of our agreement as it was within the terms of Article 20 which says, "except by mutual agreement" between the Governments. There is nothing in either the United States or Brazilian contracts which refers to a "primary position", and the Paraguayan Government considers that the missions are on an exactly equal footing each operating in distinct fields, that the question of rank or precedence does not arise. If the Department feels that this matter should be clarified, during the negotiations for the extension of this agreement is the time to do it. In view of the evident attitude of the Paraguayan Government, this Embassy does not feel that this should be made an issue.

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[10] Fletcher Warren, Ambassador to Paraguay, Apr. 10, 1947–July 25, 1950.

[11] Not printed.

The Paraguayan Government also does not concede that the United States has a "right to participate and work in any or all phases of Paraguayan military activity". It considers that the purpose of the mission is as stated in Article 1 and that is for the officers to serve as instructors, "and for such other purposes as may be agreed upon by the Chief of the Mission and the Commander in Chief of the Armed Forces". The Commander in Chief has pointed out that there has been no such agreement for activities for other purposes. It is believed that the mission might well during the past ten years have sold the Paraguayan military on an expansion of its activities and field of influence, but it is equally evident that this has not been done. If this is really desired it will require a bit of negotiating. It is not recommended that it be made an issue now. The time element is mentioned in view of the recommendation for action mentioned below as regards a short term agreement with an automatic extension clause.

The Paraguayan Government has on occasion offered to give the United States Military Mission exclusive jurisdiction in the instructional field, at the price of taking over all of the activities, which would mean increasing the size of our mission to double or treble its present complement.

Conclusions and Recommendations

The record of the last ten years shows that the United States military mission has fallen far short of obtaining the objectives outlined by the Department of the Army. It has accomplished something, of course, but the results have been obtained at considerable expense and it is doubted if they could be justified economically. During the period of the war they could, undoubtedly, be justified politically and as a matter of expediency. That is not true today. The military mission could be pulled out of Paraguay and, while the Paraguayan Government would not like it any more than it liked the closing of the military attaché's office recently, it would have no serious effect, at least militarily.

There is a question of the bolstering up of the present constitutional Paraguayan Government. It is believed that removing the mission would discourage the Government considerably. Its enemies would make capital of it as would the enemies of the United States. It is believed that the mission's removal next year might well be contemplated.

Economically it has been pointed out that, while the maintenance of the mission is expensive, transferring these officers to another post of duty would not relieve the United States Government of the cost of their salaries and allowances. The Paraguayan Government pays them some extra compensation and it provides office quarters (see Embassy Despatch No. 116 of September 2, 1953[12]) and certain other privileges so the cost really is not as great as it might appear to be at first glance nor would the saving be as great as might be thought by withdrawing the mission.

In view of the foregoing, it is recommended that the objectives be reviewed and restated, and that the chief of the military mission be informed that the principal objective is political, and that it must be achieved through close cooperation with the United States diplomatic mission and through its guidance and knowledge of the general situation. This has not been the case heretofore; in fact, there has been an evident lack of desire to maintain close contact with the Embassy and the help which the Embassy has received from the mission and which it might logically expect has not been forthcoming.

It is further recommended that certain minor changes be made in the text of the agreement. It is believed that there would be no objection to changing the title to read "Army Mission Agreement". The Chief of Staff would consent to inserting in the preamble after the word "officers", "and enlisted men". This would simplify customs procedures in connection with free entry.

It is not recommended that any attempt be made to force the Paraguayan Government to give the United States Mission precedence or control over the activities of the Brazilian or Argentine missions at this time. It is recommended that the Chief of Mission endeavor to sell this idea to the military authorities during the coming year. This will depend upon the personality and influence of the Chief of Mission, which should be one of his outstanding characteristics. The Department is informed that any attempt along this line would probably bring forth a counter-proposal from the Paraguayan Government to take over all their military instruction at the price of increasing the mission at least three-fold. It is doubtful, according to what appears in current instructions on economy, that our Government would be willing to undertake this proposal. There is also the objection that the Brazilian Mission is instructing the horse cavalry and we do not appear to have officers available for detail to this type of duty.

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[12] Not printed; it concerned the obligation of the Paraguayan Government to furnish quarters for the U.S. military mission in Paraguay (734.58/9–253).

It is recommended that the United States do not show too great an eagerness to renew this agreement, but as a practical matter it might advantageously follow the lead of the Brazilian Government and propose that the agreement be extended for a period of one year, with the proviso that the agreement would continue to be extended year by year indefinitely, unless either Government advised the other in writing three months in advance of the expiration date. It is strongly recommended that this clause be inserted and it is believed that it would be accepted by the Paraguayan Government. The advantage of it is that it would relieve the United States Government, including the Department of State and the Department of the Army, of periodically considering an extension. Simply taking no action at all would allow the agreement to run as long as desired. On the other hand, it could be terminated at any time on three months notice. The door would not be closed to modifications of the agreement at any time in the future.

The Embassy has now established contact and familiarity with the points involved as well as a working basis with the responsible military officers and would be happy to undertake the negotiation of any of the changes recommended above or any others which the Department may have in mind.[13]

GEO. P. SHAW

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[13] Negotiations looking toward extension of the Military Mission Agreement were initiated in late 1953 and continued intermittently through 1954, but no agreement was signed until mid-1955. Documents pertaining to the negotiations are in file 734.58 for 1953 and 1954.

734.5 MSP/10–2253

The Ambassador in Paraguay (Shaw) to the Department of State

[Extract]

RESTRICTED ASUNCION, October 22, 1953.

No. 217

Ref: Despatches: Totec 9, Aug. 21, 1953;[1] Emb 185, Oct. 6, 1953;[2] Tousfo A–37, Oct. 20, 1953;[3] Emb 214, Oct. 20, 1953[4]

Subject: United States-Paraguayan Joint Commission for Economic Development

[Here follows discussion concerning the legal basis for the establishment of the Joint Commission.]

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[1] Not printed (MSA–FOA Message files, FRC 55 A 374).

[2] Not printed; it reported on the operation and status of Mutual Security Programs in Paraguay for the fiscal quarter ending Sept. 20, 1953 (734.5 MSP/10–653).

[3] Not printed (MSA–FOA Message files, FRC 55 A 374).

[4] Not printed; it contained a recommendation by the U.S. Operations Mission for dissolving the Joint Commission for Economic Development (734.5 MSP/10–2053).

There were only two joint commissions set up in Latin America by the above provision of law.[5] One was in Brazil which was organized for a specific purpose and which was eliminated as of July 31, 1953. The other is the commission in Paraguay which makes this organization unique in the Latin American technical assistance program. Technical assistance projects are developed, requested, considered, and approved or rejected in all of the other countries of Latin America by direct negotiation and through normal diplomatic channels.

As of Fiscal Year 1953 Paraguay had the third largest technical assistance program in Latin America, being surpassed only by Brazil and Peru. There is no doubt that this program in recent years became overdeveloped, or at least it developed more rapidly than the economic and political structure of Paraguay could absorb it. There is considerable reason for believing that the Joint Commission, originally designed as a neutral ground for developing technical and economic aid, may be partly responsible for the type of development of the program since 1950.

During the past year there have been considerable periods of inactivity, and those sessions that were called, mostly on the initiative of this Embassy, were for the purpose of requiring careful justifications of projects, which were not always forthcoming, and which, therefore, resulted in denials of applications or reductions in operations. The Commission up until recently has been considered by the Paraguayan Government as little more than a body where requests for technical assistance may be presented with almost a certainty of approval. The attitude of the Government on one occasion was illustrated by the comment of the late Minister for Foreign Affairs Dr. Bernardo Ocampos, who said in effect, at a meeting when the American Ambassador indicated that a request might not be approved, and with some surprise, "You understand this is an official request of the Paraguayan Government", indicating that denial of the request was just out of the question. That was an attitude I took some care to alter.

On the other hand, the Commission has from time to time, and probably still could serve a useful purpose as a meeting place where projects could be discussed at length around a table at a high level and pretty well justified or rejected before ever coming in formal manner to the Embassy or to the Department of State. It is not believed, however, that the Commission has ever done much more, or is it equipped to do more now, than to follow out the first duty specified in the law; namely, to examine the requesting country's requirements with respect to technical assistance. There has never been any budget or organization for making extensive studies of the country's resources and potentialities. Such data as have been considered have been obtained from other sources, namely the Economic Section of the Embassy and certain research done by the Office of the Director of Technical Cooperation of IIAA (now USAOM). The detailed and careful examination of policies to remove deterrents to and otherwise encourage the introduction, local development, and application of technical skills and particularly the creation and effective utilization of capital, both domestic and foreign has not been done by the Commission. Neither have any useful studies or reports been prepared by the Commission as such, nor is any organization or funds available for that purpose.

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[5] Reference is to the Foreign Economic Assistance Act of 1950 (Public Law 535), approved June 5, 1950; for text, see 64 Stat. 198.

At one point United States technicians were sent to Paraguay on the theory that they were being attached to the Joint Commission, but the Joint Commission had no budget and, as a matter of fact, the technicians were first carried on the Embassy payroll and later transferred to the IIAA local office.

The economic studies and planning contemplated in Section 410 of the Act are now being done largely by the National Planning Commission of the Paraguayan Government (through the UNTA) working under the Economic Council, which in turn is essentially the Cabinet. There was an effort to have the Director of Technical Cooperation sit in on the National Planning Commission, possibly with the idea of carrying out some of the original ideas of Section 410. But, due to the necessity of direct intervention in government affairs and the political repercussions that might have been expected, the Department disapproved such action. The National Planning Commission, however, went ahead under the direction, and largely on the initiative and energy, of the head of the United Nations public administration group. It has lately been stated that the National Planning Commission (UN) now contemplates obtaining background data and prepare justifications for technical assistance projects *to be presented to the United States under its bi-lateral agreement*. Presumably these requests, when prepared and documented by the National Planning Commission, would be referred to the United States-Paraguayan Joint Commission for Economic Development for approval, a rather second-hand procedure.

The late Minister for Foreign Affairs Dr. Bernardo Ocampos early in 1953 presented the American Ambassador with an informal memorandum[6] suggesting that the functions and operations of the Joint Commission be overhauled and redefined. I did not think the time was opportune for such reorganization at that moment and Dr. Ocampos did not press his suggestion. He has since died and in view of the considerations mentioned above, it is believed that action should now be taken on defining the future policy of the Commission.

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[6] Not printed.

[Here follows discussion of the administration of the Joint Commission.]

It will be seen that the Joint Commission has never been taken very seriously by either government. It simply has been a meeting place to discuss technical assistance projects, and nothing more. Offices were set up in the Parfina Building, consisting of a secretary's office and a conference room. These are paid for by the Paraguayan Government (the rent was to be raised in July). The conference room is not used except on the rare occasions when there are meetings. The secretary's office has for at least the past year been occupied and used by the secretary of the Director of Technical Cooperation, at present it is used by the Program Officer, and the conference room is used principally for the frequent meetings of the Program Planning Committee (now USAOM).

In the meeting of April 17, 1951, the Minister for Foreign Affairs requested monthly reports from the technicians who were presumably attached to the Commission, and the United States technicians not included in any one of the three *servicios* did make more or less regular reports in Spanish of their activities each month. These reports were frequently late in being submitted and there is no evidence that they were ever read or any action taken there. In the meeting of January 27, 1953, I pointed out the above fact and suggested that the reports be discontinued, which the Minister readily agreed to do, at the same time indicating that he had never been very interested in the first place.

The meetings of the Joint Commission were frequently called by the Foreign Minister who refused to state the reason for calling the meetings and who sometimes sent out word that he was calling them as "President of the Commission". It was evident that the Foreign Minister considered the Commission as desirable more for building up political prestige for himself than for any constructive action the Commission itself might take. It was with some difficulty during the past year that I convinced the Paraguayan members of the Commission that notices should be sent out in writing in the name of the Secretary General and that an agenda should be prepared so that the members on both sides should know why the meeting was being called.

The meetings had customarily been held in the office of the Minister for Foreign Affairs. The group simply sat in a number of chairs and there was no table or other facilities upon which to place papers, the meeting being dominated completely by the Minister for Foreign Affairs. During the year, I succeeded in having the meetings held in the conference room of the Joint Commission. While this was agreed to the Minister for Foreign Affairs was never enthusiastic about going to the conference room to attend the meetings or to the implication that the Paraguayan and United States Sections of the Commission were meeting on an equal footing. This was illustrated by the fact that on January 27, 1953, the Minister called a meeting (really citing us to appear), not in the committee rooms, but in the Foreign Office, and although I made repeated inquiries of the Secretary General he, on the instructions of the Minister for Foreign Affairs, refused to state why the meeting was being called. Upon arrival it was found that the Minister cared to discuss the possibility of having Point IV technicians serve as advisors on Planning Commission sub-committees. On another occasion the Minister called the meeting and would not state the reason, although it was held in the conference room of the Commission. Upon arrival on March 19, 1953, it was found that the Minister for Public Works desired to announce his impending trip to the United States and his proposal to solicit a loan for $7,200,000 to finance the Asunción water works. It occurred to the American Section of the Commission that the high-handed manner of calling the Commission together and informing them of the intention to solicit a loan, without having given any previous inkling of the reason for calling the meeting, was a poor approach for enlisting sympathetic consideration of the project. It appeared later, when I mentioned this fact in private conversation, that the President was given credit for the idea. I am of the opinion that it originated with the Minister himself.

It will thus be seen that many political considerations have entered into the negotiations of the Joint Commission and it might be well at this time, and in view of the now radically changed situation, to make the Embassy less vulnerable to direct pressures from the Government and to allow the technical assistance organization, under the direction of the Director of the Operations Mission to work out its projects directly with the various ministries and governmental organizations and to get full justifications before even allowing them to come up for consideration and approval by the Embassy policywise.

There have been since its inception thirty meetings of the United States–Paraguay Joint Commission for Economic Development. The record of its meetings were not kept in an orderly manner and finding and organizing them has been a difficult task. However, in the past few months these minutes have been completely rewritten in the orderly form established by the present Commission and are now on file in the Embassy and in the office of the Country Director of USAOM.

[Here follows an extensive list of Joint Commission meetings and brief summaries of matters discussed at the meetings.]

Suggested Policy and Procedure

The new Minister for Foreign Affairs, Dr. José Antonio Moreno Gonzalez, appears to be an active and intelligent man. When the matter of possibly dissolving the Joint Commission was mentioned to him a few days ago his first reaction was that of opposition. He stated that he thought the Commission should continue and that it would be useful as a place where the technical aid program could be discussed at a high level, more or less informally and, as he expressed it, "face-to-face". His point of view was that while it would place an additional burden on the Minister for Foreign Affairs, "he had to work anyway and had to eventually consider these matters; therefore, he might as well do this in the most convenient place and manner". It was pointed out to him that there has been a change in the concept of the technical aid organization now known as the United States of America Operations Mission, and that the Ambassador will be available for policy guidance on important matters but that he is not desirous of sitting in regularly on meetings that handle current operations, and thereby having to assume responsibility for following through on them.

Experience has shown that despite good intentions, such as those expressed by the Minister for Foreign Affairs, Paraguayan officials seldom follow through on programs involving steady and concentrated work. It will be noted that the Paraguayan Government has not shown any interest in having a meeting of the Joint Commission since last May and as there were a number of matters the Embassy desired to avoid, it took no action. The result was that there were no meetings. Such matters as have come up in the meantime have been handled by direct negotiation. This includes lengthy discussions with all of the Ministers involved in technical aid matters and consideration of such important subjects as detailed budget figures. This situation could continue.

It is recommended that the United States Government do not name formally another U.S. member to the Joint Commission but allow the Country Director and the Deputy Chief of Mission of the Embassy, who is an alternate, to attend if the Government should initiate a meeting. If the Ambassador should miss a meeting or two it is quite probable that the Minister for Foreign Affairs would promptly lose interest in the proceedings.

It is recommended that the Embassy continue to point out to the Minister for Foreign Affairs the feasibility of handling technical aid requests and negotiations directly rather than through a Joint Commission.

It is recommended that as soon as possible these points of view also be conveyed to the President who takes a personal interest in this matter.

It is recommended as a final step that as soon as the President and the Minister for Foreign Affairs can be convinced of the desirability of doing it, the Commission be dissolved by exchange of formal notes, and with suitable preparation of the public through the press.

It is recommended further, however, that if the United States Government does not decide to work towards the dissolution of the Commission, the Ambassador of the United States in Asunción be named by President Eisenhower as the senior member of the U.S. Section of the Commission; and, that the Paraguayan Government be required to take the same action regarding the Minister for Foreign Affairs so as to put the Commission on a formal and effective basis for constructive work.[7]

GEO. P. SHAW

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[7] In instruction A-39, to Asunción, dated Nov. 12, 1953, the Secretary stated that the Department agreed with Ambassador Shaw's recommendations, and he instructed the Embassy to initiate the formal steps necessary to terminate the Joint Commission (834.00 TA/11-1253). On Feb. 5, 1954, Chargé Shillock notified the Paraguayan Government that the United States desired to terminate the Commission, and on Feb. 20, the Paraguayan Government expressed its agreement (Despatch 365, from Asunción, dated Feb. 25, 1954, 834.00 TA/2-2554).

For text of the exchange of notes signed at Asunción, Feb. 13 and 24, 1954, entered into force on the latter date, terminating the Joint Commission, see Department of State Treaties and Other International Acts Series (TIAS) No. 3129, or *United States Treaties and Other International Agreements* (UST), vol. 5 (pt. 3), p. 2731.

734.5622/11-453

Memorandum of Conversation, by Robert M. Sayre of the Office of Regional American Affairs

CONFIDENTIAL [WASHINGTON,] November 4, 1953.

Subject: Interest of Paraguay in Obtaining United States Aircraft

Participants: Mr. Leighton Cain, Office of the Secretary of Defense
Lt. Col. Charles McGarrigle, Office of the Assistant for Mutual Security, Department of the Air Force
Mr. Paul J. Kern, Department of the Air Force
Col. Sydney T. Smith, Chief, U.S. Air Force Mission to Paraguay
AR—Mr. Jamison, Mr. Sayre
OSA—Mr. Havemeyer

A meeting was held in Mr. Jamison's office to discuss a prospective purchase by Paraguay of United States military aircraft costing approximately $2,000,000. (The estimated cost and availability of the desired aircraft is given on the attached data sheet.[1])

The principal problems raised by this prospective purchase were (1) whether Paraguay was economically in a position to make such dollar expenditures and (2) what procedure Paraguay should follow in presenting its request to the United States.

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[1] Not printed.

Colonel Smith said that the purchase of United States aircraft had first been discussed with him by the Commander in Chief of the Paraguayan Armed Forces. The original proposal involved only procurement of twenty T–6D aircraft.[2] However the President of Paraguay added the additional aircraft[3] as also being necessary and desired. Colonel Smith considered the request reasonable although he did think it might be advisable to space procurement over several years. He said the Paraguayans contemplated spreading it over a four year period. He also said that he was himself in a position to place the request before the U.S. Government for Paraguay.

Mr. Havemeyer expressed concern over the dollar expenditure such a purchase by Paraguay would require. He noted the meager dollar resources available to Paraguay and Paraguayan efforts to obtain loans from the Export-Import or International Banks to carry out projects important to the Paraguayan economy, and difficulties they had with making payments on such loans. He thought it would be difficult to justify these efforts to obtain loans at the same time sizeable dollar resources were being spent on military equipment and that it would be particularly difficult to explain if, as a result of such purchases, Paraguay defaulted, as it had done, on existing or possible future loans.

Mr. Jamison agreed that this was something that had to be carefully considered but he also noted that we were selling military equipment to other countries that were obtaining loans, some in financial straits similar to those of Paraguay. While the Department or our Embassy might diplomatically point out to the Paraguayans this problem, in the final analysis the manner in which Paraguay, or any other government spent its money, was for that government to decide.

With respect to any payment terms except cash dollars in advance, Mr. Cain said that this was a matter to be decided by FOA. He thought that this purchase would be eligible for the "dependable undertaking" method of payment which, in the case of Paraguay, would probably be an irrevocable letter of credit drawn on an American bank. Mr. Jamison added that he did not personally think we should recommend any credit terms for Paraguay which might involve risk of default in payment after the equipment was delivered.

With respect to the procedure being followed by Paraguay in presenting its request, Colonel Smith said it was not quite clear to him why the Paraguayan Government was reluctant to have its Embassy in Washington handle the matter. Mr. Jamison thought unless there were overriding reasons that the normal procedure should be followed, i.e., a request submitted through the Paraguayan Embassy in Washington to the Department of State. Unless it were handled in the usual manner he had some difficulty in seeing how the transaction could be concluded, especially with respect to the sales contract which must be signed by an authorized Paraguayan official.

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[2] The estimated total price of these aircraft ($1,434,000) included the cost of refitting them with certain types of armament equipment.

[3] Four helicopters and four Beech Bonanzas.

Colonel Smith said that when he returned to Paraguay he would discuss the matter with the United States Embassy. It appeared that the best thing to do was to suggest to the Paraguayan Government that it submit a request now only for those aircraft that it wanted immediately and could pay for and submit requests over the next four years for the remaining aircraft as it wanted and could pay for them. Regarding procedure, if the Paraguayans were for whatever reason unwilling to go through the Embassy channel, it might be possible for the President of Paraguay to designate a Paraguayan officer to serve, in effect, as a purchasing mission.

Mr. Jamison agreed that this appeared to be a satisfactory way to handle the problem. He wanted to emphasize, however, that the Department of State might have reservations on economic grounds, and that in discussions with the Paraguayans every effort should be made to avoid the impression that the request had already been or would be approved.[4]

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[4] Department instruction A–42, to Asunción, dated Nov. 17, 1953, reads in part as follows: "If deemed necessary to do so, the Embassy may inform the Paraguayan Government that the Department would have no objections to the purchase of these aircraft. At the same time, however, the Department believes it to be desirable for the Embassy to suggest orally to appropriate officials that Paraguay may wish to consider this sizeable dollar expenditure in connection with its possible effect on the country's ability to obtain and service dollar loans." (734.5622/11–653)

Editorial Note

On May 5, 1954, the Paraguayan Army deposed President Federico Cháves, and the National Assembly thereupon named Tomás Romero Pereira, President of the Governing Board of the Colorado Party, as Provisional President of Paraguay. He served in that capacity until August 15, 1954, when General Stroessner, having been duly elected on July 11 to fill the unexpired term of President Cháves, assumed the office of President. Documents pertaining to these events are in file 734.00 and 734.00(W) for 1954.

734.00/5–1254

Memorandum by the Secretary of State to the President[1]

CONFIDENTIAL WASHINGTON, May 11, 1954.

Subject: Recognition of New Paraguayan Government

During the past ten days the Paraguayan Government has undergone a revolutionary change. The Department does not foresee that the new government will differ substantially from its predecessor. The change resulted from rivalries within the ruling Colorado Party and no outside influences are considered to have been involved. The new regime appears firmly in control of the country. The United States Chargé d'Affaires[2] reports that members of the diplomatic corps in Asunción are recommending recognition of the new government prior to Paraguay's National Holiday, May 14, 1954.

I recommend that you authorize me to instruct our Embassy to resume relations with the new Paraguayan Government provided satisfactory assurances are obtained that the new government will assume all its foreign obligations.[3]

J[OHN] F[OSTER] D[ULLES]

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[1] Drafted by John K. Havemeyer of the Office of South American Affairs, cleared in draft with Mr. Atwood and Mr. Belton, and delivered to the White House on May 11.

[2] David M. Maynard, Counselor of Embassy.

[3] The source text bears the following handwritten notation, initialed by President Eisenhower: "OK DE/12 May 1954". On May 13, after having received verbal assurances that the new government would honor Paraguay's international obligations, Chargé Maynard informed the Paraguayan Foreign Office of the continuation of relations (734.00/5–1354).

834.2614/8–1354

The Acting Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Managing Director of the Export-Import Bank (Edgerton)

CONFIDENTIAL [WASHINGTON,] August 13, 1954.

DEAR GENERAL EDGERTON: Reference is made to your inquiry of August 10 as to the State Department's position with regard to the pending application of the Paraguayan Government for an Eximbank credit to assist in financing the Asuncion Water Works Project.

The Department supports consideration of this project by the Bank as indicated by Mr. Corbett[1] at the Executive Committee Meeting of July 8. While it is known that the Paraguayan Ambassador is urging immediate action on his Government's application, the Department is of the opinion that it would be advantageous for United States-Paraguayan relations if the authorization of this credit could follow shortly after Ambassador Ageton, newly appointed United States Ambassador to Paraguay, arrives at his post. Ambassador Ageton expects to reach Asuncion about September 1.

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[1] Jack C. Corbett, Director, Office of Financial and Development Policy.

The Department would not object if for banking reasons the Eximbank wishes to take action immediately on the application, provided that no announcement is made until Ambassador Ageton informs the Paraguayan President of the Bank's action at the time he presents his credentials.[2]

Sincerely yours, THORSTEN V. KALIJARVI

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[2] On Sept. 2, 1954, the Export-Import Bank approved in principle a credit of up to $7,200,000 in favor of the Republic of Paraguay to assist in financing the purchase of U.S. services and equipment necessary for the installation of a central water supply system in Asunción. For additional information, see Export-Import Bank of Washington, *Nineteenth Semiannual Report to Congress for the Period July–December 1954* (Washington, 1955) pp. 13–14.

PERU

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND PERU[1]

Editorial Note

On January 7, 1952, representatives of the United States and Peru initiated negotiations at Lima for a bilateral Military Assistance Agreement. Documents pertaining to the negotiations are in Department of State file 723.5 MSP. The Agreement was signed on February 22, and entered into force on April 26, 1952; for text, see Department of State Treaties and Other International Acts Series (TIAS) No. 2466, or *United States Treaties and Other International Agreements* (UST), volume 3 (pt. 2), page 2890.

Concurrent with the negotiations for a Military Assistance Agreement, representatives of the United States and Peru conducted negotiations for a related bilateral military plan. The "Plan of the Governments of the United States of America and Peru for their Common Defense" was initialed at Lima also on February 22, 1952, and transmitted to the Department of State under cover of despatch 893, dated February 25, 1952, not printed (723.5 MSP/2–2552).

From the effective date of the Military Assistance Agreement, United States military missions in Peru performed the functions of a Military Assistance Advisory Group (MAAG) on an interim basis. In early February 1953, the Department of Defense recommended the establishment in Peru of a separate MAAG consisting of four officers and four entlisted personnel at a total cost of $93,000 for an 18-month period. On February 9, the Department of State instructed Ambassador Tittmann to undertake negotiations with the Peruvian Government to secure its consent to provide local currency to cover the administrative and operating costs of the MAAG (airgram A–200, dated February 9, 1953, 723.5 MSP/2–953). In telegram 314, from Lima, dated February 26, 1953, Ambassador Tittmann reported that the Peruvian Government agreed to pay the amount requested by the United States (723.5 MSP/2–2653).

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[1] Continued from *Foreign Relations*, 1951, vol. II, pp. 1579 ff.

Editorial Note

On January 23, 1952, the International Bank for Reconstruction and Development (IBRD), approved a loan of $2.5 million to finance the improvement of port facilities at Callao; for additional information concerning the loan, see International Bank for Reconstruction and Development, *Seventh Annual Report to the Board of Governors 1951–1952* (Washington, 1952), page 34.

On July 8, 1952, the IBRD approved a loan of $1.3 million to assist in financing the purchase of equipment in the United States for agricultural development in Peru; for additional information, see International Bank for Reconstruction and Development, *Eighth Annual Report to the Board of Governors 1952–1953* (Washington, 1953), page 35.

On July 15, 1953, the Export-Import Bank approved a loan of $2.5 million to the Marcona Mining Co., a United States corporation, to assist in financing the development and production of iron ore deposits in Peru; for additional information, see Export-Import Bank of Washington, *Seventeenth Annual Report to Congress For the Period July–December 1953* (Washington, 1954), page 13.

On April 12, 1954, the IBRD approved a loan of $1.7 million to assist in financing the purchase of heavy equipment in the United States for agricultural development in Peru (398.14/4–1254).

OSA files, lot 55 D 475, "Arms"

The Ambassador in Peru (Tittmann) to the Assistant Secretary of State for Inter-American Affairs (Miller)

SECRET OFFICIAL–INFORMAL LIMA, February 25, 1952.

DEAR ED: I saw President Odría on February 18 at his request. He wanted to talk about the Military Assistance Bilateral Agreement and the Bilateral Defense Plan. He said that while he felt that the Agreement was all right, he was, on the other hand, not over enthusiastic about the Plan. Nevertheless he would give orders to have both documents signed by the Peruvian authorities (this was done on February 22, 1952), so that the treaties could be submitted to Congress for ratification as soon as possible. He felt that the Plan was inadequate, offering as it did, so little to Peru and he was especially unhappy about the Army's share, since he was an Army man and his fellow officers were sure to feel that he could have done better for this own branch of the Armed Forces. He demonstrated some apprehension lest Peru might be even more hindered than she was at present in purchasing the necessary equipment and supplies for her "internal defense" (that is, her defense against the Communists and her allegedly covetous neighbors) under the Mutual Defense Assistance Act of 1949[1] if she tied herself up too tightly with the Mutual Security Act of 1951[2] (I wrote him a letter[3] which, I hope, will counteract these fears). Odría recalled that Peru had always experienced a great deal of difficulty in securing delivery of the equipment she had purchased under the Act of 1949. What Odría wanted very much was some kind of assurance from us that when the Peruvian Armed Forces needed equipment and supplies, Peru would not only be able to continue as before to purchase them in the United States, but also that we would permit the arms thus purchased actually to be shipped to Peru. In this connection, it was obvious that Odría had been made suspicious, rightly or wrongly, of our methods and motives. We seem to him to be placing one obstacle after another in the way of delivery, especially as regards the DE's and the F–47 aircraft which had been fully paid for by Peru. He hoped very much that when I reported his ideas to you, we would be able to tell him something to set his mind at rest on this score.

Odría went on to say that Peru was 100 percent on the side of the United States in the struggle against Communism and that we could count on her whole-hearted cooperation at all times. He added, however, that in order to make this cooperation effective Peru must be strong and able to defend herself internally as well as externally. What was the point, he asked, in preparing for an external attack if Peru were unable to defend herself internally. In the event that a shooting war with Russia were to break out today, the Communists all over Latin America would start agitation within their respective countries. In his opinion, Brazil and Peru were the only two countries capable of dominating this agitation. Therefore, Odría concluded, it was in the highest interests of the United States that the latter should see to it that Peru continued strong internally as well as externally. Solely in this way could she remain the bulwark against Communism in Latin America that she is today.

Odría asserted emphatically that it was ridiculous to think that Peru would ever use her armaments in an aggressive act against a neighbor. He pointed out that at the present time relations were not good with any of her neighbors (they all wanted something), including even Brazil, which looked with covetous eyes on the petroleum possibilities in eastern areas of Peru. It was therefore unthinkable that Peru would ever take the offensive against a neighbor as this would mean that one or all the others combined would eagerly and greedily fall upon her from the rear. Under these circumstances, her defeat would be certain and her lands divided up among the victors. On the other hand, a well-defended Peru would discourage any neighbor from attacking her and the peace in this area of Latin America would thus be maintained.

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[1] Public Law 329, approved Oct. 6, 1949; for text, see 63 Stat. 715.

[2] Public Law 165, approved Oct. 10, 1951, for text, see 65 Stat. 373.

[3] Not identified.

I enclose two memoranda of conversations[4] on the foregoing subjects: one dated February 14 between General Morla,[5] the Chief of Staff of the Peruvian Army, and the Military Attaché of the Embassy;[6] and the other dated February 21 between President Odría, General Niergarth,[7] and the Military Attaché.

My overall impression is that Peru so far is not particularly keen on the military grant-aid project, especially since other important countries seem rather slow in accepting the same thing. Contributing factors to this attitude are: (1) emphasis on external rather than internal defense (the latter is the only thing that really interests the Peruvians at this stage of world developments); (2) a faint suspicion that the new project will make it still more difficult for the Peruvians to purchase arms and supplies in the United States under the Act of 1949; (3) a fear that Peru will be treated less favorably than other countries as regards military grant-aid, the revelation of which might have an adverse effect on Odría's political position.

While I am confident that Peru will go along with us in almost anything we may propose in regard to military matters involving the defense of the continent, I nevertheless think that it would be a good thing to smooth the way wherever possible. Permission to purchase one of our old cruisers would create a very favorable popular reaction all over the country and would help us politically no end. I don't believe the Department fully realizes the popular appeal of a cruiser. DE's, new submarines, and other vessels are probably appreciated by naval men more than an old cruiser, but it is the cruiser that impresses the rank and file and is therefore a political asset. I understand that it has been explained to the Department why a new cruiser for Peru should not upset the balance of naval power on the West Coast since it would merely replace the three old ones which the Peruvians now possess.

Sincerely yours,

HAROLD H. TITTMANN

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[4] Attached to the source text, but not printed.

[5] Manuel Morla Concha.

[6] Col. Frank N. Leakey.

[7] Brig. Gen. Omer O. Niergarth, USAF; chief of the U.S. team which negotiated the Military Assistance Agreement with Peru.

Miller files, lot 53 D 26, "Peru"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Peru (Tittmann)[1]

SECRET OFFICIAL–INFORMAL [WASHINGTON,] March 5, 1952.

DEAR HAROLD: Thank you for your detailed letter of February 25[2] reporting on and analysing the attitude of Peruvian officials, and especially President Odria, toward the military grant-aid program and the other assistance Peru has received or would like to receive from the United States in the military field. Before discussing the points raised, however, I should like to express the appreciation of those of us here particularly concerned with the grant-aid negotiations for the excellent and effective manner in which you and others similarly involved in Lima carried the negotiations with Peru to an expeditious and successful conclusion. It was a job very well done.

With reference to your impression that Peru is not enthusiastic about the grant-aid program because of its preoccupation with internal security, it is perhaps understandable that the transition from concepts of nationalistic self-interest to genuine adherence to the practice as well as the principle of collective defense will call for difficult adjustments both practical and psychological, and, in some cases, such as Mexico and Argentina, will not happen quickly. We can only hope to make some headway with the encouragement provided in the present program, and Peru's participation is all to the good.

Insofar as Peruvian concern is related to the size of the program for that country, while I do not know all of the factors and considerations which led the Department of Defense to take up with Peru the particular tasks and units specified in the Military Plan, it seems to me that, as one of a relatively small number of countries approached with an offer of assistance to all three armed services, Peru has come out rather well. After all, the total program is not very large. Furthermore, there seems to be a slight inconsistency between preoccupation with internal defense and concern at not being cut in for more in the grant-aid program, which is so clearly directed at external military effort.

It is reassuring, however, that the President does not seem to consider that Peru's needs for her immediate security should be on a grant basis. One of the most frequent adverse criticisms of our program has been the charge that, however closely its purposes and objectives may be tied to strengthening the hemisphere against the threat of Soviet imperialism, the assistance will actually be used for other purposes.

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[1] Drafted by Duncan A. D. Mackay and Edward A. Jamison of the Office of Regional American Affairs.

[2] *Supra.*

With regard to President Odria's concern lest the grant-aid program will prejudice acquisition of military assistance on a reimbursable basis, there are several points to be considered. In the first place, it is entirely correct that participation in the grant-aid program will not prejudice acquisition on a reimbursable basis of equipment, etc., which is available and which is clearly needed by Peru to maintain her own defense. This does not mean, of course, that we can escape the fact that the capacity of this country to meet military requirements throughout the world limits availability, nor does it mean that we shall approve without question any request that Peru may wish to make. There are necessary limitations which must continue to be imposed.

One of the basic assumptions of the Peruvian position as reported in your letter appears to be that they have not been receiving fair or equitable treatment in the acquisition of military assistance on a reimbursable basis. When one compares what Peru has actually received with what Latin American countries of Peru's size, or even larger, have received under the Mutual Defense Assistance Act of 1949, one is struck with the fact that Peru has not fared badly. In this connection, I have enclosed for the Embassy's own information the latest cumulative figures of the transactions which have taken place under the MDAP with this area since October 1949, as of January 31, 1952.[3]

With respect to the pending request for a cruiser for Peru, this question is, I understand, far from being decided in Defense. No reply has as yet been received to the Department's letter to Defense of January 5, 1952,[4] requesting to be advised as to the military requirement of Peru for a heavy cruiser in relation to any mission she would be likely to perform in hemisphere defense. I believe a copy of this letter was sent to Lima informally. I shall see that you are kept currently advised on developments in regard to this request and appreciate receiving your views on it.

Sincerely yours, EDWARD G. MILLER, JR.

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[3] The enclosure attached to the source text shows that Peru received reimbursable military assistance valued at $1,343,236, an amount more than that received by any other Latin American country, except Argentina, Brazil, and Chile. A footnote to the figure for Peru, however, reads as follows: "This figure does not include the three D–E's which have now been delivered to Peru. Their cost plus rehabilitation amounted to $4,425,000. With their delivery, Peru now probably leads all countries in value of items actually received."

[4] Not printed (723.5 MSP/1–552). The Department of Defense reply is printed on p. 1499.

723.56/3-2852

Memorandum of Conversation, by Charles W. Kempter of the Lend-Lease and Surplus Property Staff

CONFIDENTIAL [WASHINGTON,] March 28, 1952.

Subject: Peru—Lend-Lease Settlement Negotiations.

Participants: ARA—Mr. Thomas C. Mann
OSA—Mr. Maurice M. Bernbaum
Mr. Robert J. Dorr
OFD—Mr. Francis T. Murphy
Mr. Charles W. Kempter

A meeting was held in room 4213 New State at 2:30 pm today to discuss the situation relating to lend-lease settlement negotiations with the Government of Peru. Mr. Mann wished to have a clear outline of the position of the office responsible for lend-lease matters in order that he might reply directly to Ambassador Tittmann's telegraphic appeal to him for support in the Embassy's urgent recommendation that the Department agree to accept the proposal of the Peruvian Government to pay in soles. The Embassy feels that this may be the last and only opportunity we may have for a long time to settle this long delinquent obligation.

Mr. Murphy said that we had made a very thorough examination of all the factors involved and had discussed salient points with Treasury as well as with our Foreign Buildings Division and Finance Division. It had been conclusively shown that, as the FBO appropriation has been used up, there will be no hope for new funds before July 1, 1953 and even that hope is speculative since no enabling legislation has as yet been assured. U.S. Government agency needs for soles, if maintained at present schedules, would require at least ten years to use approximately 45 million soles (estimated return from lend-lease at 15.-plus). Treasury and OFD objects to taking on any long position in soles.

The Peruvian suggestion of 6 years to pay was discussed and it was indicated that the Department would not accept anything over 5 years. It was generally agreed that the economic position of Peru is the best it has been for a long time and that there is no reason why Peru cannot pay the lend-lease account in dollars at this time. Mr. Mann said that President Odria had some unique ideas in respect to dollar payments in general and to the liquidation of the lend-lease account in particular. He asked if giving special consideration to Peru would be likely to have unfavorable repercussions from other countries which not yet have reached settlement terms. He was told that it probably would and that such an inadvisable course of action might unfavorably react against other settlement arrangements with certain of the American republics which are now "current" in their payments.

The OFD position is that a counterproposal should be submitted to Peru by the Department on a "take it or leave it" basis and that it should be noted that such a counterproposal is not a starting bargaining point but is the maximum to which we will go to secure Peruvian concurrence. Such "last word" terms are:

1. The immediate transfer to the lend-lease account of the credit of $125,910.37 from interim-arms contracts.

2. Payment of the net obligation of $2,844,831.63 in semi-annual installments on the following schedule:

June 30, 1952	$244.831.63 in U.S. dollars
December 31, 1952	200,000.00 –do–
June 30, 1953	300,000.00 (see note below)
December 31, 1953	300,000.00 –do–
June 30, 1954	300,000.00 –do–
December 31, 1954	300,000.00 –do–
June 30, 1955	300,000.00 –do–
December 31, 1955	300,000.00 –do–
June 30, 1956	300,000.00 –do–
December 31, 1956	300,000.00 –do–

Note: The agreement would be expressed in dollar terms, as is the usual practice, giving to the United States the usual option to draw local currency to meet any and all of its expenditures in Peru.

3. Peru could anticipate any payment and pay in advance in dollars at any time. The agreement would contain the usual exchange rate language which provides that each conversion shall be that rate most favorable to the U.S. which at the time of each such transaction, is available to any party provided that such rate is not unlawful and, if both countries have agreed par values established with the International Monetary Fund, such rate is not prohibited by the Articles of Agreement of the Fund.

4. Interest shall be paid in U.S. dollars at the fixed rate of 2⅜% per annum on the dollar amount of any installment payment not made by its scheduled due date; such interest shall begin at due date and continue to the date on which payment is made.

(Should Congress provide new funds for the buildings program by FY 1954 consideration would be given to taking proportional payments in soles to meet building program needs as well as administrative requirements not satisfied from other sources. However, no commitment of any kind can be made by the Department until such new funds are definitely provided.)

Mr. Mann went over these terms, one by one, and asked what would happen if the Peruvians did not accept them. He said that the friendly government officials now willing to come to terms for payment in soles might change and that there was no assurance that new officials would view the payment of the lend-lease accounts as a responsibility of the Government of Peru. Mr. Murphy said that that was something which had to be faced but that, so far as he was concerned, non-acceptance of the foregoing terms of settlement would mean that eventual settlement would be put off for a while. He believed that circumstances dictated that, in the light of all of the factors involved, it is better to delay a settlement than to enter into one which we could not justify as being satisfactory from a financial standpoint either to ourselves or the Congress.

Mr. Mann said that he would send the Ambassador a telegram[1] saying that a letter[2] containing a full story of the lend-lease matter was being drafted and would soon be on its way to him via airmail. A copy of this letter will be furnished LL for its files.

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[1] Apparent reference to telegram 352, to Lima, dated Mar. 28, 1952, not printed (723.56/3–2652).

[2] Not identified.

723.5321/3–3152

Memorandum by the Director of the Office of Military Assistance, Department of Defense (Olmsted) to the Special Assistant to the Secretary for Mutual Security Affairs (Cowen)

SECRET WASHINGTON, March 31, 1952.

Subject: Purchase by the Peruvian Government of U.S. Naval Vessels for use by the Peruvian Navy. Case No. Peru–13

1. Reference is made to memorandum from your office 5 January 1952,[1] requesting information concerning the status of the Peruvian Government's current request for the purchase of a cruiser from the United States Government under Section 408(e) of the Mutual Defense Assistance Act of 1949, as amended.

2. The following information is furnished relative to the status of subject request:

a. The request of Peru for a cruiser is still under active consideration by the Department of Defense. In the event that it is found that a cruiser can be made available to Peru, no assurance can be given at this time as to the identity of the cruiser that might be made available.

b. Public Law 3, 82nd Congress, 1st Session,[2] requires Congressional approval prior to disposal of battleships, carriers, cruisers, destroyers, and submarines which have not been stricken from the Navy Register. It is the opinion of this office, as of now, that representation to the Congress for disposal of a cruiser to Peru during this session should not be made and would not meet with favorable consideration if made.

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[1] Not printed (723.5 MSP/1–552).

[2] Reference is to the "Act to authorize the construction of modern naval vessels, and for other purposes," approved Mar. 10, 1951; for text, see 65 Stat. 4.

c. The Department of Defense is unable to confirm the information which Admiral Saldias[3] reports having received of various officers in the Department of the Navy and subsequently relayed to the State Department by Mr. Aramburu,[4] Minister Counselor of the Peruvian Embassy. Admiral Saldias was informed, however, during a visit to the Office of the Secretary of the Navy and subsequent to letter from this office, 15 December 1951,[5] subject: Request by the Government of Peru for U.S. Naval Vessels, that the Peruvian Government's request for a U.S. cruiser is being considered.

d. The concept of the Joint Outline War Plan for Latin America is based upon Latin American Forces in being, and the two Chilean modern cruisers now in the plan are capable of countering the threat of raider action on the west coast of South America. It is considered that Peru would contribute more to hemisphere defense by maintaining the combat efficiency of her patrol type ships to fill the critical need of convoy escorts in the event of hostilities than to contribute a cruiser, not required to fill the Naval Force gap in the plan. On the above premise there is no overriding military requirement for a Peruvian cruiser in the defense of the Western Hemisphere.

3. This confirms certain information previously furnished your office by letter 15 December 1951, discussions with representatives of your office and this office, 26 February 1952, and various telephone conversations.

GEORGE H. OLMSTED
Major General, U.S. Army

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[3] Rear Adm. Roque A. Saldías, Peruvian Minister of Marine.

[4] Germán Aramburú Lecaros. A memorandum of telephone conversation between Robert J. Dorr of the Office of South American Affairs and Minister Counselor Aramburú, dated Mar. 20, 1952, reads in part as follows: "In the course of the conversation Minister Aramburú said that Admiral Saldías had been given to understand by the U.S. Navy that the whole question of a cruiser for Peru hinged on the possibility of obtaining legislative approval for the transfer. The Minister stated the Navy had said it would be able to find a cruiser for Peru and would sponsor legislation for a transfer if it appeared legislative approval could be obtained." (723.5621/3–2052)

[5] Not printed.

Miller files, lot 53 D 26, "Peru"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Peru (Tittmann)[1]

SECRET [WASHINGTON,] July 31, 1952.

DEAR HAROLD: We have been looking further into President Odría's suggestion described in your letter of July 21[2] that a United States Air Force officer be made Chief of Staff of the Peruvian Air Force.

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[1] Drafted by Mr. Jamison.

[2] Not found in Department of State files.

An initial question was whether this would be legally possible, in view of the Constitutional prohibition against acceptance of office from a foreign state without the consent of Congress. The Defense Department lawyers would only give us a very informal reading to the effect that it might be possible to interpret some of the legislation authorizing detail of military personnel *to assist* other governments (which is the basis for our Mission Program in Latin America) in a manner which would permit such an assignment, but only under conditions which would appear to be completely impracticable, if not impossible, to meet. For example, the office of the Department of Defense's legal counsel advises informally that it would be necessary that there be a finding by the President that such transfer would be in the national interest and it would also be necessary that the freedom of the individual concerned to take orders from the foreign government would be strictly limited to certain specific subjects. Furthermore, it would be necessary for the other government to waive any requirement that an oath to that government be taken, which would seem to affect any command functions he might need. It appears certain that the necessary steps could not be taken unless it were deemed to be of overriding importance to the national interest, a condition which, in my opinion, the present proposal does not meet. None of those with whom we discussed this matter either in State or Defense have been able to recall any instance in which such an assignment has been made, except under war conditions.

Whatever may be the legal or administrative technicalities, however, it seems to me that there are extremely important policy reasons why it would not be desirable for a United States officer to assume such a command position. To whatever extent we may sympathize with the President's desire to clean up a messy situation, and however valuable such rehabilitation would be in improving Peru's hemisphere defense capabilities, there is great danger that even the most discreet person in such a position would be precipitated into internal quarrels and conflicts against his will. An attempt to extricate himself after the trouble had broken out, in accordance with Odría's suggestion, would simply add to his difficulties. Even more important, however, I believe that putting a United States officer in such a command postion would immediately be taken elsewhere, if not in Peru, as confirmation of the charge that our military policy, particularly the grant-aid program, has the ultimate objective of putting Latin American armed forces under United States command. This could have a severely adverse effect upon our whole program.

On the basis of the information obtained thus far, I believe it would be well to emphasize the technical and administrative obstacles to such a proposal, rather than any strictly legal ones, but that it should also be frankly pointed out that the exercise of command functions by a United States officer, even if it were possible or practicable, would pose very serious policy problems, and would not, in our view, be in the best interests either of the United States or Peru. This could be coupled with an indication that we would be prepared to consider what might be done by way of special augmentation of the Air Force Mission aimed at dealing with specific difficulties in the Peruvian Air Force but only in a strictly advisory capacity. It is possible that some arrangement might be worked our under which we could thus assist the Peruvians in doing what they should be able to do themselves.

With reference to the second part of the proposal (which Colonel Stroh[3] does not believe necessary)—that a member of the Mission be made director of the Air Force school—there appears to be precedent for such an arrangement in El Salvador and perhaps in Brazil. This might require an amendment of the existing Mission Agreement[4] but apparently it could be done, provided, I assume, that no command function or oath of allegiance is involved.

Sincerely yours, EDWARD G. MILLER, JR.

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[3] Claire Stroh, Chief, U.S. Air Force Mission in Peru.

[4] Reference is to the Military Aviation Mission Agreement signed at Washington, Oct. 7, 1946, and entered into force on the same date, as amended and extended; for text, see TIAS No. 1562, or 61 Stat. (pt. 3) 2398.

723.5 MSP/8-1152

Memorandum by the Director of the Office of Military Assistance, Department of Defense (Olmsted) to the Special Assistant to the Secretary for Mutual Security Affairs (Martin)

WASHINGTON, August 11, 1952.

Subject: Reimbursable Military Assistance Under Section 408(e) of the MDAA, as Amended—Case Nos. OMA Peru 23 and 23/1

1. Reference is made to memoranda from your office, subject as above, dated 16 April 1952[1] and 3 July 1952.[2] These memoranda forwarded notes from the Peruvian Embassy requesting purchase of 26 T–6G Aircraft, 6 T–7 Aircraft, B–25 Aircraft (number not specified) and cartridges, bombs and rockets.

2. The following is the status of the above requests:

a. There are no B–25's available from USAF stocks for sale to the Peruvian Government.

b. There are no T–6G aircraft available from USAF stocks for sale to the Peruvian Government.

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[1] Not printed (723.5 MSP/4–1652).

[2] Not printed (723.5 MSP/6–352).

c. There are no T–7 aircraft available from USAF stocks for sale to the Peruvian Government. It is understood that the Beech Aircraft Corporation is manufacturing the civilian version of this aircraft in the C–45 configuration (civilian designation D–18S). It is believed that Peruvian Government representatives have made direct contact with the Beech Aircraft Corporation in connection with the purchase of this type aircraft.

d. The Department of the Air Force is in the process of making a pricing and availability study on the ammunition, bombs and rockets portion of Case No. OMA Peru 23. This study will be forwarded to the appropriate Peruvian representatives when completed.

3. The following additional data is forwarded for information in connection with the Peruvian request for T–6G aircraft. At present, Lt. General Armanda Zamudio, Commanding General of the Peruvian Air Force, is in the United States with members of his staff, for the purpose of procuring equipment and material from commercial sources for the Peruvian Air Force, and expediting the delivery of items being purchased under Section 408(e) of the MDAA, as amended. As part of General Zamudio's activities in the commercial markets of the United States, he has been making an effort to purchase 20 T–6 aircraft. Concurrently with his search for this type aircraft in the commercial market, the Department of the Air Force was making an effort to procure on behalf of the Peruvian Government the 6 T–6 aircraft requested under Case No. OMA Peru 23. Due to the shortage of this type aircraft, it was discovered that the activities of the Department of the Air Force and General Zamudio had the effect of competing for the same limited number of available aircraft. As a result, it was explained to General Zamudio that the Department of the Air Force would postpone any further action pending the outcome of his effort to procure the aircraft direct from commercial sources. For the same reason, it is not considered advisable to initiate procurement action on behalf of the Government of Peru for the 20 T–6G aircraft requested under Case No. OMA Peru 23/1.

4. If the Peruvian representative fails in his effort to procure T–6 aircraft on the commercial market, it is requested that this office be advised if further action is necessary toward the procurement of this aircraft on behalf of the Peruvian Government.

George H. Olmsted
Major General, U.S. Army

823.2542/12–2052

The Assistant Secretary of State for Economic Affairs (Linder) to the Administrator of the Defense Materials Procurement Agency (Larson)[1]

CONFIDENTIAL [WASHINGTON,] December 30, 1952.

DEAR MR. LARSON: This is in reply to your letter of December 20[2] in which you invited the Department's comments on the proposal of the Defense Materials Procurement Agency to assist the American Smelting and Refining Company in the development of the Toquepala copper deposits in Peru. I am very glad to give you our views.

As you have recognized, there are important aspects of this question that are outside the competence of the Department of State. We are, nevertheless, very much interested in certain results which would follow from a development of this sort.

At a time when nationalistic feeling seems to be rising in Latin America and declarations in favor of nationalization of mineral resources have become the fashion, it would be very salutory if a large private development, offering substantial benefits to the country concerned, could be begun. It would be especially fortunate if this could take place in Peru, which has recently adopted a mining code unusually favorable to foreign private investment. On the other hand, since the Company's plan has received public attention in Peru and other Latin American countries, the failure of the United States Government to lend whatever assistance is appropriate, or any decision on the part of the Company not to proceed, might give additional impetus to the nationalization drive, with serious consequences to our future supplies of industrial raw materials.

This Department is also particularly conscious of the problems created by the heavy dependence of the United States on copper imports from a single source—Chile. In our negotiations with Chile for the copper agreement which Chile denounced last spring, and in our subsequent efforts to assure a continued flow of copper to the United States at reasonable prices, we have been handicapped by that dependence. The development of an alternative source of the magnitude of Toquepala would greatly improve the bargaining power of this Government and of American private industry.

In the light of the foregoing, the Department believes that the Toquepala project is in the interest of our foreign policy and, if it meets the requirements of the Defense Production Act, is hopeful that it can be favorably considered by your agency.

Sincerely yours, HAROLD F. LINDER

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[1] Drafted by Director of the Office of International Materials Policy Evans, cleared by Director of the Office of South American Affairs Atwood and with the Investment and Economic Development Staff

[2] Not printed (823.2542/12–2052)

723.5 MSP/1–1053: Telegram

The Counselor of Embassy in Peru (Gilmore) to the Department of State

TOP SECRET LIMA, January 10, 1953—11 a.m.

240. Summary requested Depcirtel 722, January 7,[1] follows. Full report will be pouched immediately following Ambassador Tittmann's return approximately January 15.

Most important objective MSP Peru is preserve, strengthen Peru's attitude cooperation with US. Technical assistance program associates US important activities bettering Peru standard living. These improvements increase peoples attitude democracy and lessen possibility their accepting communism. By thus contributing stability and pro-US orientation country, program helps assure continued production and sale to US raw materials vital defense effort. Basic objective military program is that Peru's armed forces retain US orientation and be prepared contribute collective defense western hemisphere with specific units ready defend coastal sea communications and coordinate with US defense effort. Present courses action good in both technical military fields and Peru adheres 100 percent to commitments made.

Increasing worry re neighboring governments, especially Bolivia, which are more leftist, pro-Peron than Peru makes Peru increasingly security conscious. Present government sees potential threat its stability in possible spread leftist doctrines. As result, Peru turning even more to US as friend and natural political-economic ally. Has also approached Brazil re forming Brazilian-Peru axis strongly US oriented. Most factors present economic situation favorable. Internal financial stability satisfactory with good outlook. Government expenses 1952 exceeded income and being financed thru borrowing which not believed constitute factor financial weakness nor threat internal price levels. Balance international payments satisfactory in view continued stability currency. 1953 balance may be worse due lower prices export products, but favorable investment climate expected attract considerable foreign capital.

Both military and technical aid have furthered internal political stability. Military aid helping training, morale armed forces, especially air force. Technical assistance program substantially contributing to positive accomplishments regime fields agriculture, health, education and they create favorable attitude toward government.

Activation planned forces progressing, but not so rapidly as contemplated US planning. Air force and navy now working on system mutual cooperation coastal defense for first time. Deficiencies exist trained manpower and facilities utilize military aid and probably could not utilize aid faster than now receiving.

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[1] The referenced telegram requested reports concerning the status of mutual security programs (700.5 MSP/1–753)

Major economic development trends include increasing investment foreign capital metals and petroleum due liberal laws and exchange policies. Continued irrigation works and pioneer development continuing.

Economic and social effects Point IV program include substantial improvement agricultural production, health and education conditions. They have contributed to increased national production and individual income, which results increased social consciousness and incorporation more people national life.

Attitude government and people toward Point IV programs very good. Good attitude part government toward military assistance program but people have little knowledge.

Peru extends full cooperation both programs. Self help evidenced by fact Peru increasingly contributes funds Point IV programs over and above contract obligations.

GILMORE

611.23/4-2153

Memorandum by the Acting Secretary of State to the President[1]

SECRET [WASHINGTON,] April 22, 1953.

Subject: Appointment with the Peruvian Ambassador and Navy Minister on Thursday, April 23, at 12 Noon

Ambassador Berckemeyer will present Rear Admiral Roque A. Saldias, Navy Minister and special envoy of Major General Manuel A. Odria, President of Peru. Admiral Saldias, pro-United States and a leading figure of his Government, will present a letter (translation attached)[2] from President Odria expressing his appreciation for having been awarded the Legion of Merit and discussing Peru's position in her boundary controversy with Ecuador.[3] According to the Ambassador, he will also present orally:

1. Assurance of Peru's desire for full cooperation with us in a uranium program.[4] The Vice President of Peru[5] met with the Atomic Energy Commission early this week on this matter, and a survey expedition will be arranged shortly.

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[1] Drafted by Mr. Dorr, with the assistance of Deputy Director Bennett.

[2] No attachment was found with the source text.

[3] Documents pertaining to this subject are in file 622.233.

[4] Documents relating to the development of a uranium program in Peru are in file 823.2546.

[5] Héctor Boza.

2. Peruvian concern over bills pending in the Congress to raise duties on United States imports of lead, zinc and tuna fish. Increased duties would seriously affect Peruvian exports and would be interpreted by Peru as contrary to a United States policy of friendship and economic cooperation.

3. Peruvian preoccupation over the Bolivian situation[6] and her conviction that Argentina is attempting to create political and economic difficulties for Peru, principally through withholding needed food shipments and infiltration efforts by Peronista labor activities.

A statement by you expressing satisfaction over Peru's sound economic progress and affirming our serious interest in and desire for continued cooperation with Peru would be reassuring to Odria's friendly government.

WALTER B. SMITH

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[6] Reference is to a Bolivian land reform program in areas along the border between the two countries. In a memorandum of conversation with Assistant Secretary Mann, dated Apr. 20, 1953, Ambassador Berckemeyer stated that this program "created serious problems for his country as the Aymara Indians, the ones affected, were present in both countries." (723.00/4–2053)

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Conversation, by the Chief of Protocol (Simmons)

CONFIDENTIAL [WASHINGTON,] April 23, 1953.

Subject: Call on the President by Peruvian Minister of Marine

Participants: The President
Peruvian Minister of Marine
Peruvian Ambassador
Chief of Protocol

The Peruvian Minister of Marine, Rear Admiral Roque A. Saldías, called on the President today, by special request, in order to deliver a personal letter[1] and message from the President of Peru. The Minister was accompanied by the Peruvian Ambassador. The letter dealt almost exclusively with Peru's annoyance at what it terms Ecuador's intransigeance in failing to complete its surveys so as to bring into effect the Rio Protocol of 1942, settling the long-standing Peru–Ecuador boundary dispute. The letter also mentioned, in general terms, other matters which the Peruvian President wished the Minister to bring to the President's attention.

The Ambassador opened the interview by telling the President of Peru's hope that no increased American tariffs might be imposed on our importations from Peru of lead, zinc and copper. He said that the matter is one of great importance to the Peruvian economy. He described, in answer to the President's questions, the diversified nature of Peru's economy, indicating its most important exports to this country as cotton, oil, copper and other metals, as well as textiles made from llama and vicuña skins, and a few other items, mainly agricultural. The President explained that he was not in a position to say what Congress would do on the tariff question, but that he was ready to use his influence at all times to try to prevent any injustices being done.

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[1] A copy and translation of the referenced letter, dated Mar. 31, 1953, are attached to the source text, but not printed here.

From this point the Ambassador, and later the Minister, entered upon a detailed and somewhat lengthy discussion of the adverse and anti-United States attitude of President Peron of Argentina. They both stressed Peron's growing influence in other countries, bringing out the points that Paraguay was now merely an Argentine province, that Argentina was the dominating influence in Bolivia under the new regime of President Paz Estenssoro and that even Ecuador, under its new pro-Argentine President, Velasco Ibarra, was turning more than previously toward Peron for leadership. The Ambassador said that Chile was still maintaining a strong independent position but that its economic situation was unsatisfactory, a factor which might, if continued, swing it towards the Argentine camp. As for Peru, the Ambassador said that its economy is strong, that it now has a free foreign exchange market and that its finances are in fine shape. He said that Argentina often tries to drive sharp trade bargains based on Peru's need for Argentine beef, but that, if Peru had adequate means of sea transportation, they might improve their own negotiating position with Peron by purchasing meat in Nicaragua. The Minister said that it was important to the United States to have an economically strong Peru in order to avoid having all South America falling into the Argentine orbit. Therefore, he said, we should give all possible support to Peru. Communism, he said, was a great and growing danger, and Argentina would be a fertile field for increased Communist activities. A prosperous Peru, he felt, was a bulwark against Communism.

He added, and this was corroborated by the Ambassador, that a widespread means of Argentine infiltration is its practice of sending to its various Embassies abroad a corps of highly trained "labor attachés". These people, he said, citing the situation in Lima as a striking example, stir up labor troubles in the countries where they are stationed, infiltrating themselves into inner labor circles and thus having a hand in encouraging strikes and in labor activities of a political nature. The President suggested the possibility that such individuals could always be declared *persona non grata* if their actions became particularly offensive. In practice, the Ambassador said, this was possible but often difficult because of the complexities of Argentina's diplomatic set-up and the delicacy of disturbing its diplomatic relationships.

The President expressed interest in all these matters, asked about Peruvian wheat importations (about 200,000 tons annually) and reiterated his belief in closer relations with Latin America. He said that he had wished to visit Latin America himself but was prevented by his duties here from so doing. For that reason he was sending his brother, Dr. Milton Eisenhower, as his personal representative on a forthcoming Latin American trip of good-will and study.[2] Dr. Eisenhower, he said, would work in close cooperation with the Department of State and our Embassies.

A curious part of the interview was that the Ecuador boundary dispute, the main subject of the letter, was mentioned only briefly, although with some feeling.

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[2] Regarding Dr. Eisenhower's trip, see the editorial note, p. 196.

823.00/11-253

Memorandum of Conversation, by Edgar L. McGinnis, Jr., of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] November 2, 1953.

Subject: Various Peruvian Economic and Political Problems

Participants: Rear Admiral Roque A. Saldias, Peruvian Minister of Marine
The Peruvian Ambassador
ARA—Mr. Cabot
OSA—Mr. McGinnis

Admiral Saldias said that he was taking advantage of his visit to the United States to attend the launching of the new Peruvian submarine *Tiburon* at Groton, Connecticut, to discuss various important economic and political matters with Mr. Cabot at the suggestion of President Odria.

The Admiral said that Peru was undergoing a period of economic strain resulting from the decline in world market prices of its principal exports. He said that while the Government had the situation in hand, there was always the possibility that Peru might have to resort again to governmental control of foreign exchange which it had previously abandoned. He said that Peru wished to avoid this since it was ever mindful of the example it had set for other Latin American countries in freeing its economy of official controls.

The Minister then referred to various economic problems in which he thought the Department could be of help and said that while he did not ask for any commitments from Mr. Cabot, he bespoke his serious and favorable consideration of them. Admiral Saldias said that the principal economic problems were sugar, the Toquepala copper project and the IBRD's refusal to consider further loans until Peru had settled its sterling indebtedness. Both Admiral Saldias and the Ambassador bespoke the Department's aid in obtaining a larger sugar quota for Peru under the International Sugar Agreement.[1] They explained in detail Peru's reasons for refusing to sign the Sugar Agreement and indicated that there were means to increase Peru's quota if United States support were forthcoming. With respect to the Toquepala project they described its importance to Peru and urged serious consideration of its merits. The Ambassador then spoke out strongly against the IBRD's refusal to act upon Peruvian loan applications until Peru had reached a settlement with British holders on its sterling debt. He regarded this as unfair since it required Peru to negotiate with the British under a tremendous handicap. The Ambassador asserted that Peru had made a fair offer to the British which included payments on the principal at the rate of $4.86. Moreover, pending settlement of the matter the Peruvian Government is setting aside funds regularly to meet these obligations.

Mr. Cabot replied that insofar as the sugar question was concerned, this appeared to be a multilateral problem. He pointed out that it would be almost impossible for the Department to take the position that the International Agreement and the Sugar Act[2] be amended but that he would look into the possibility of providing some relief for the Peruvians through the use of unused quotas.

Regarding the Toquepala project, Mr. Cabot said that he continued to be very much interested in it and hoped that an appropriate time might soon come to bring this project forward again. He indicated that Dr. Eisenhower's report[3] is shortly to be distributed to the interested agencies of the Government and that this might afford a good opportunity. He said that he considered the project a sound one, but that due to its magnitude it was necessary also to think of the question of timing in pressing for its execution.

As to Peru's relations with the IBRD, Mr. Cabot observed that the international character of that institution placed limits upon our ability to intervene in individual cases. He expressed his regret that it had not been possible to have a meeting of minds between the Peruvian Government, the American Bondholders Committee and the British

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[1] For text of the Agreement, concluded at London, Oct. 1, 1953, and entered into force, May 5, 1954, see 6 UST 203, or TIAS No. 3177.

[2] Reference is to the Sugar Act of 1948 (Public Law 388), approved Aug. 8, 1947; for text, see 61 Stat. 922.

[3] Reference is to the report submitted to President Eisenhower by Milton Eisenhower after his factfinding trip to South America during the summer of 1953 as the Personal Representative of the President. The report was published as "United States-Latin American Relations: Report to the President" (Department of State Publication 5290; Washington, 1953). Regarding the trip and the report, see the editorial note, p. 196.

Bondholders Committee and said that he would again ascertain whether anything could be done to hasten the granting to Peru of the IBRD loans which had been delayed pending the completion of Peru's foreign debts settlements.

The Ambassador then stated that he was leaving with Mr. Cabot three formal communications[4] relating to sugar, forthcoming United States tariff hearings on lead and zinc, and Peru's relations with Colombia and Ecuador. Regarding its relations with Colombia and Ecuador, the Ambassador stated that Peru was seriously concerned over unfriendly statements made by Colombian and Ecuadoran officials in connection with the recent meeting of Presidents Velasco and Rojas Pinilla which were directed at Peru. More particularly, Peru regards indications of a Colombian-Ecuadoran military alliance as a serious threat to Peru. Admiral Saldias added that he was leaving with Mr. Cabot a copy of his Groton speech[5] made upon the occasion of the submarine launching. The Admiral said that in his speech he made it clear that the strengthening of Peru's naval forces represented a sincere desire to cooperate with the United States in the maintenance of peace and to insure this Hemisphere against outside aggression.

Mr. Cabot replied to the Admiral that we appreciated this attitude of his Government and observed, with respect to the Ambassador's remarks, that he was confident that neither Colombia nor Ecuador harbored aggressive designs against Peru.

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[4] None printed.

[5] Not printed.

823.10/1-2554

Memorandum of Conversation, by Edgar L. McGinnis, Jr., of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] January 25, 1954.

Subject: Peruvian Request for Stabilization Loan

Participants: Ambassador Berckemeyer, Peruvian Embassy
ARA—Mr. Cabot
OSA—Mr. McGinnis

Ambassador Berckemeyer said that following discussions in Lima with his Government, he had been instructed by President Odria to request a stabilization loan from appropriate sources in the United States for the purpose of stabilizing the exchange value of the sol and paying off the backlog of commercial debts. He stated that while Peru had imposed credit restraints and had taken measures of retrenchment to prevent the further depreciation of the sol, these measures had not yet shown results. He indicated that overspending by the Government on development was a major contributing cause and that this was being remedied. The Ambassador went on to say that the situation was aggravated by a flight of capital which would be prevented through a restoration of confidence in the value of currency. For this reason, a loan was necessary. Although, he said, it was unlikely that the loan would be drawn on to any great extent. The simple fact that dollars were available from such a loan would reestablish confidence in the currency. The Ambassador said that his Government did not desire to resort again to official currency and import controls which it had worked so hard to eliminate when the Odria administration came into power.

Mr. Cabot said that we were aware of this situation and had already given some preliminary consideration to the matter. He said that it appeared that the best method would be for Peru to request a drawing from the IMF. When the Ambassador indicated that this procedure might not yield sufficient amounts for the purpose Peru had in mind, Mr. Cabot replied that this could be regarded as a first step. If other steps were needed later, we would be glad to consider which further measures might be necessary. He said that in view of Peru's favorable record in encouraging foreign private investment and eliminating official economic controls, there existed a favorable disposition among United States officials to be of assistance in this situation. Mr. Cabot said that he personally had a good hope that appropriate assistance could be rendered and inquired as to the sum the Peruvian Government had in mind for stabilization purposes.

Ambassador Berckemeyer replied that his Government had a figure of $30 million in mind which could be used both for purposes of stabilization and for elimination of the backlog of commercial debts. In reply to an inquiry by Mr. Cabot, the Ambassador said that he would be available for a meeting with IMF officials tomorrow morning, but that he would be out of town from noon Tuesday to about noon the following day. He remarked that he had to travel to New York to be present at the opening of the exhibition of Peruvian art objects at the Museum of Modern Art.

Mr. Cabot said that he would be pleased to do what he could to help arrange an early meeting with IMF officials and said that he would communicate later with the Ambassador on the subject.

The Ambassador said that a memorandum[1] had been handed by his Government to Ambassador Tittmann describing the current exchange situation and Peru's request for assistance. When Mr. Cabot stated that the memorandum had not yet reached Washington, Ambassador Berckemeyer promised to send a copy to the Department today.

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[1] Not identified.

823.131/2–2454

The Deputy Assistant Secretary of State for Inter-American Affairs (Woodward) to the Acting Regional Director for Latin American Operations, Foreign Operations Administration (Hardesty)

CONFIDENTIAL [WASHINGTON,] February 24, 1954.

DEAR MR. HARDESTY: In response to your oral inquiry, I am pleased to report to you that the Department of State has been informed by the International Monetary Fund that it entered into a stand-by credit arrangement with the Peruvian Government on February 17, 1954 that will enable it to draw up to $12,500,000 as support for stabilization of the Peruvian Sol. At the same time, the Treasury Department of the United States Government signed an agreement[1] with the Peruvian Ambassador by which $12,500,000 of the Stabilization Fund of the Treasury Department is earmarked for stabilization of the Peruvian Sol. Likewise, the Department has learned that the Chase National Bank has signed an agreement with the Peruvian Government by which a stand-by credit of $5,000,000 has been opened for possible use in stabilization of the Peruvian Sol.

In response to your further inquiry with respect to discussions with the Peruvian Ambassador concerning a possible transaction by which the Peruvian Government might purchase wheat from this Government, the Peruvian Ambassador has indicated to officers of this Department that (1) his Government does not wish a gift of wheat but that it would be interested in purchasing wheat (2) in Peruvian currency which would not be convertible into United States dollars, and (3) at a price which would provide the wheat to Peru as though it were purchasing the wheat at the market price but at a rate of 15 soles to the United States dollar—in other words, since the present rate of the sol is approximately 20 to the dollar, at a discount of approximately 25% from the world market price. The Ambassador indicated, moreover, (4) that the wheat thus purchased would be the normal requirements of Peru for wheat and would not be a quantity beyond those regularly purchased through the regular channels of trade

The Peruvian Ambassador has been informed that there is no authorization in present United States legislation for the sale of wheat by the United States Government in foreign currency that is not freely convertible into United States currency. It was predicted to him that it would seem unlikely, in the event there should in the future be such authorization, that there would be provision for the sale of wheat for foreign currency at a substantial discount below the world market price. Moreover, it was mentioned to the Ambassador that it seemed probable that the Government of the United States, in any arrangements for the sale abroad of United States wheat surpluses held by the United States Government, would not wish to provide the normal and regular needs of countries that may be in such economic and financial condition as to be able to purchase those normal needs through the regular channels of trade.

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[1] A copy of the referenced Agreement is attached to a memorandum by Assistant Secretary of the Treasury Overby to the Secretary of State, dated Mar. 11, 1954, not printed (823.10/3-1154). For additional information about the Agreement, see *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1954* (Washington, 1955), p. 58.

The Department of State is in accord with the view of the Foreign Operations Administration, as mentioned orally by you, that there does not at present appear to be basis for a surplus wheat transaction with Peru in connection with the stabilization problem.

Sincerely yours, ROBERT F. WOODWARD

723.00/5-1354

Memorandum by the Director of the Office of South American Affairs (Atwood) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

CONFIDENTIAL [WASHINGTON,] May 13, 1954.

Subject: The Haya de la Torre Visa Case[2]

On the basis of available information it appears that if Haya de la Torre applies for admission into the United States he will seek a non-immigrant visa as a representative of the International League for the Rights of Man, a non-governmental organization affiliated with UN–ECOSOC. Such a visa would have to be affixed to a Peruvian passport or some other document valid for a period of six months beyond the date of his anticipated departure from the United States and authorizing his re-entry into his own country or into another country (Section 101(a) 30 Immigration and Nationality Act[3]). In January 1949 the Department instructed Embassy Lima by telegram that it had no objection to the admission of Haya to the United States. Since then, the passage of the Immigration and Nationality Act would require a re-evaluation of the case.

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[1] Drafted by Edgar L. McGinnis, Jr. and Milton Barall of the Office of South American Affairs.

[2] Victor Raul Haya de la Torre, a Peruvian political leader, had sought political asylum in the Colombian Embassy at Lima in January 1949. The Peruvian Government refused to grant him safe conduct to leave Peru until March 1954, whereupon he departed for Mexico.

[3] Public Law 414, approved June 27, 1952; for text, see 66 Stat. 163.

If he applies, we would have to determine whether his admission into the United States would be inimical to our interest as defined by Sections 212 (a) 26, 27, 28, 29 of the Immigration and Nationality Act. Aside from those sections dealing with members of totalitarian organizations, the language of the Act would appear to be sufficiently broad to refuse admission to anyone whose presence here would be prejudicial to public interest or endanger our welfare. Thus, if we determine to keep Haya out of the country, it could apparently be accomplished without difficulty.

Though there has been no formal request that the United States refuse a visa, the Peruvian Embassy here is anxious to keep Haya outside the United States and away from the sounding-board of the United Nations because of anticipated attacks upon the Odría administration. Hence his admission would probably complicate our relations with Peru and, to a limited degree, might be prejudicial to our national interest. On the other hand, if we refuse admission to Haya, there could most likely be widespread adverse repercussions in Latin America from democratic and liberal elements in the area. The communists, and others who seek political power by attacking the United States, would probably argue that the United States is always lined up on the side of the dictators and almost never with so-called "popular" causes. Moreover, the Department could expect attacks by influential press organs in the United States, including the *New York Times* and the *Washington Post* and *Times Herald*, labor organizations, and organizations and groups concerned with the preservation of civil liberties.

The ICFTU, its Western Hemisphere affiliate ORIT, and the AFL and CIO have long been interested in Haya. The ORIT and AFL have frequently indicated publicly their support for him during his asylum in the Colombian Embassy in Lima. Haya consistently assisted the anti-communist labor groups when he was a powerful political force in Peru and it was through his invitation that ORIT's founding convention was held in Lima in 1948.

While a review of the files indicates that Haya was probably influenced by both communist and fascist ideology in formulating the APRA's program in the 1920's, it does not appear that APRA is a communist-dominated organization or that Haya is a communist or a fellow traveler. Some of the principles espoused by APRA such as land reform, anti-clericalism and concern for the Indian have perhaps made APRA vulnerable to charges that it is Communist influenced. However, even in the early days, there were ideological differences between APRA and the Communists. Haya has publicly spoken out against communism. The latest information regarding Haya's political views appears in the May 3, 1954, issue of *Life* (page 164) where he says *inter alia* that "I believe that democracy and capitalism offer the surest road toward a solution of the world's problems, even though capitalism still has its faults."

Haya's admission into the United States appears to be more of a public-relations problem than one involving basic security issues. While Haya may be a demagogue and a political opportunist, and may have been more interested in seizing power than in securing the reforms he advocated, it would be almost inconceivable that he should engage in activities within the United States which would jeopardize our security. After study of the files and evaluation of the effect on relations with other countries, OSA is of the opinion that greater damage would be done to the United States if Haya were refused a visa than if he were admitted.

On the basis of the information which has been available to OSA thus far, it does not appear that Haya is inadmissible, nor that the issuance of a visa would cause irreparable damage to our relations in Latin America.

Recommendation:

It is requested that you approve, from the political point of view, the granting of a visa to Haya de la Torre.[4]

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[4] Assistant Secretary Holland approved the recommendation. The source text bears his handwritten notation as follows: "Can't we get a strong anti-communist statement out of him[?]"

823.2542/8–3054

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] August 30, 1954.

Subject: Joint Private U.S. Government Financing of the Toquepala Copper Project in Peru.

Discussion:

On April 14, 1953 the American Smelting and Refining Company presented a proposal to the Export-Import Bank for a loan of $120 million to finance a $168 million development of the Toquepala copper mine in southern Peru. It was contemplated that $60 million of the loan would be from the defense funds and $60 million from the Eximbank's own funds.

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[1] Drafted by Director of the Office of South American Affairs Atwood; concurred in by Assistant Secretary Waugh.

On July 7, 1954 the American Smelting and Refining Company submitted new data which represent a sharp reduction in the Government participation and a corresponding increase in the capital to be provided from private sources.[2] Roughly the new proposal amounts to private capital in the amount of approximately $98 million and Eximbank loans and capital totalling approximately $98 million.

This latter figure is very close to the recommendations currently being made by the Eximbank staff which contemplate Eximbank loans and guarantees totalling $90 million. (Tab A).[3]

I should like to stress the political importance of such a large private investment and especially when it is being made in a country that has handled its economy in a manner thoroughly in keeping with U.S. principles. I should also like to stress the significance that the approval of this project would have in clarifying U.S. principles and objectives prior to the Rio Economic Conference.[4]

We and the Commerce Department have strongly favored the development of Toquepala and it is believed that FOA has a similar opinion. I also understand that the Office of Defense Mobilization still views the Toquepala Copper Project as very important for the United States and one which it hoped could be brought into production in spite of the absence of defense funds for the purpose.

Mr. Brownell,[5] President of the American Smelting and Refining Company, will probably discuss and urge approval of this project with Secretary Humphrey. (The Treasury Department has thus far not signified its approval.) I hope that Mr. Brownell will be able to persuade Mr. Humphrey of the wisdom of the U.S. helping to finance this project. In the meantime the project will continue to be considered at the Eximbank.

Recommendation:

While I hope the above measures will be adequate to obtain approval for this project, I recommend that you authorize me to continue support of this project, including an approach by you or possibly Mr. Hoover if this is felt necessary.[6]

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[2] In a memorandum to Mr. Holland, dated Sept. 2, 1954, Mr. Waugh stated in part the following: "At my suggestion they [American Smelting and Refining Company] revamped their application in accordance with present conditions." (823.2542/9-254)

[3] Not printed.

[4] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (popularly referred to as the Rio Economic Conference), held at Quitandinha, Brazil, Nov. 22-Dec. 2, 1954; for documentation on the meeting, see pp. 313 ff.

[5] Kenneth Brownell.

[6] The source text contains no indication of the Secretary's action on this recommendation.

823.246/7–2154: Instruction

The Acting Secretary of State to the Embassy in Peru[1]

CONFIDENTIAL WASHINGTON, September 8, 1954.

Subject: Declaration on Maritime Zones

A–41. While the Department appreciates the force of the views set forth in the Embassy's despatch No. 40 of July 21, 1954,[2] and would not desire to take any action which would affect adversely the situation of American fishing interests operating off the coast of Peru, nevertheless, it feels that this Government's position must be made clear to the Peruvian Government.

As the Embassy is aware, the Department desires if possible to have the draft articles on the continental shelf recommended by the International Law Commission of the United Nations considered at the 10th General Assembly. Furthermore, the Organization of American States is planning a conference for the consideration of these and related matters in 1955.

At the instance of the United States fishing industry, the last Congress passed a law[3] to reimburse American fishermen for losses sustained through the imposition of fines for fishing in areas claimed by foreign countries as territorial waters, but which claims are not recognized by the United States. Members of the Congress have indicated, in connection with this legislation and at other times, their unmistakable interest in the maintenance by this Government, in all appropriate ways, of its traditional position with respect to the freedom of the high seas.

In view of the above, the Department considers that the legal position of this Government must be brought to the attention of the Peruvian Government, and that a routine reservation of rights is inadequate. However, the time and manner in which this should be done are left to the discretion of the Embassy, which is authorized to act separately and at such time and in such manner as to remove, as far as possible, implications of coordinated United States-British pressure, but the Embassy is not to take any action which will in any sense tend to mitigate against the effectiveness of the British approach, as it is the policy of the two Governments, based on an informal understanding, to consult together and to take such action as is possible to prevent encroachments on the freedom of the seas.

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[1] Drafted by Assistant Legal Adviser for European Affairs Raymund T. Yingling.

[2] In the referenced despatch, the Embassy reported that the Peruvian Government had recently reaffirmed its claim of 200-mile territorial waters and was currently preparing to take additional steps to strengthen the claim. It further stated that a strong protest by the United States in coordination with the British Government, which the Department was considering, raised the possibility of a "distinctly unfavorable Peruvian reaction." Such a protest was likely to result in a stiffening of the Peruvian position and inspire Peru to concert with other Latin American governments making similar claims, which "in turn could adversely affect the hopes evidently entertained by United States fishing interests of obtaining needed port privileges and other concessions in Peru." The Embassy suggested that the Department consider a separate, moderately-worded note reserving U.S. rights. (823.246/7–2154)

[3] Apparent reference to "An act to protect the rights of vessels of the United States on the high seas and in territorial waters of foreign countries" (Public Law 680), approved Aug. 27, 1954; for text, see 68 Stat. 883.

In accordance with the foregoing the Embassy may substitute for the note enclosed with the Department's instruction No. A–6 of July 9, 1954,[4] a note substantially along the following lines. The Embassy's note should make clear the disappointment of this Government that despite its previous indication of nonrecognition of the Peruvian claim to sovereignty over the waters off the coast of Peru to a distance seaward of 200 marine miles, the Peruvian Government has signed at Santiago on August 18, 1952, the Declaration Regarding Maritime Zones adopted by delegates of Chile, Ecuador and Peru in conference, which declaration reiterates the previous Peruvian claim and further purports to lay the basis for the regulation of fishing and whaling in the maritime zone defined.

The position of Peru is not only contrary to the position of the United States as contained in Section 3 of the Outer Continental Shelf Lands Act, enacted on August 7, 1953,[5] but is also inconsistent with the Articles on the continental shelf adopted by the International Law Commission of the United Nations at its Fifth Session, which articles the United States regards as generally expressive of international law. The Peruvian claims to jurisdiction over great areas of the high seas, which find little support elsewhere, cannot be recognized by the United States, which considers that under international law there is no obligation to recognize claims to territorial waters in excess of three miles from low-water mark on the shore.

While the United States recognizes that the conservation of the natural resources in the high seas, outside the limits of territorial waters, may be a legitimate interest of the coastal state, it feels that conservation measures must be taken in concert with the other parties to which they are intended to apply, and that they are not a matter for unilateral determination by the coastal state.

The Government of the United States must, therefore, reserve all of its rights in the event the Peruvian Government should attempt to implement the principles set forth in the declaration of Santiago under reference.[6]

SMITH

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[4] Not printed (823.246/7–954).

[5] Public Law 212; for text, see 67 Stat. 462.

[6] Copies of notes presented to the Peruvian Government reserving U.S. rights with respect to the maritime zones issue, dated Sept. 20 and 27, 1954, were transmitted to the Department of State under cover of despatch 162, dated Sept. 28, 1954, not printed (823.246/9–2854).

823.2542/10–454

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward) to the Under Secretary of State (Hoover)

CONFIDENTIAL [WASHINGTON,] October 4, 1954.

Subject: Toquepala Loan

Discussion:

In order to send Mr. Holland the latest information concerning the consideration by the Eximbank of the Toquepala loan, I asked General Edgerton[1] on October 3 whether the Eximbank expected soon to make a specific recommendation to the National Advisory Council concerning the action to be taken on the loan application. General Edgerton, who had implied on September 23 that he considered the Eximbank to have sufficient information upon which to complete its study and make a firm recommendation, now said that he was in doubt concerning the sense of the NAC discussion on September 22, in which you took part. I told General Edgerton that I had the distinct impression that it was the consensus that the loan could be made, if the higher figures for the total amount of United States exports of goods and services involved—stated to be over $100 million—should prove to be accurate estimates. I added, however, that I believed you considered it would be desirable to have some further discussion with the American Smelting and Refining representatives concerning the identity, and possibly the amount, of private participation other than their own.

The Bank does not appear to be moving ahead with its study of the application. If the application is to be approved, it is important that action be taken within the next few weeks in order to give an outstanding example of the use of the Eximbank in economic development prior to the Rio Meeting of Economic and Finance Ministers.

General Edgerton made the general remark that the Eximbank had already given a tentative commitment to participate in the venture to the extent of $60 million and that he thought, after further consideration, the Bank might find it possible to go substantially higher.

On the evening of October 3, by coincidence, I happened to be talking with Mr. Robert Guggenheim, recently-returned Ambassador to Portugal, and he mentioned on his own initiative that the Kennecott Company and A S & R are joining together in financing the Toquepala project. This may indicate that the minority private investors already lined up by A S & R are principally the Kennecott Company. If A S & R has already solicited participation from Kennecott, this might satisfy Secretary Humphrey, who expressed the view on September 22 that other large United States copper companies might be willing to provide a large part of the capital which is being requested from the Eximbank.

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[1] Managing Director, Export-Import Bank.

Recommendations:

That you authorize me to make arrangements for Mr. Brownell of A S & R to come to see you, and to see General Edgerton subsequently, "in order to clarify certain points" with respect to the loan application.

That you ask Mr. Brownell who the other prospective private investors are, and form your own opinion as to whether A S & R should be expected to obtain larger private participation.

That you then express your views to General Edgerton, and possibly also to Mr. Humphrey, in order to encourage the Eximbank to make a specific recommendation on the loan application.

Telephone Report

Date and time of call—2:45 pm October 8, 1954
Participants: Mr. Hoover and General Edgerton of Eximbank
Subject: Toquepala loan.

Abstract of conversation: In response to Mr. Hoover's query about the status of the Toquepala loan, Gen. Edgerton stated that the Eximbank still has it on hand under advisement of the Treasury people and that he hasn't made any final commitment. The new modifications have been under study and the project is ready for the Executive Committee to work on now. A day or two ago the General had corrected a misunderstanding about total amount of dollar expenditures which now stand at $105 M. for supplies, services at $20 M. and total construction costs $180 M., bringing total probable requirements to $224 M. The minimum the bank would lend would be $60 M. and could probably stretch it to $75. His Board members are going to be away for a while but the General expected that the next week or two would bring the problem to a firm position. Mr. Hoover elicited from him the promise to move a little more quickly.

Gen. Edgerton added that they would be influenced by what they felt was the attitude of NAC and that the Department should not get involved to the extent that the Toquepala people got the idea that they are making their sale in the Department.

723.56/10–554

Memorandum by Charles W. Kempter of the Lend-Lease and Surplus Property Staff to Edgar L. McGinnis, Jr. of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] October 10, 1954.

Subject: Peru—Settlement of Lend-Lease Obligation

On the basis of the several recent conversations held within ARA with the Peruvian Ambassador in connection with the long pending completion of the Lend-Lease Settlement Arrangement and to my recent talks with Messrs. Welch, Belton, Corliss, and you on the same matter, I have prepared a "position paper" which outlines the course taken in our negotiations since 1948 with the Peruvians, reviews certain factors which have to be considered at this stage and provides an expression of LL's views covering the over-all situation. Two copies are attached in case you may wish to send one to our Embassy, Lima.

In writing this paper strict adherence to facts high-lighted by the records may put a friendly nation in an unfavorable light. There has been no intention to derogate but simply to point up situations as they actually occurred and to reflect interpretations of those situations arrived at both in and out of the Department. Together our comments may contribute to a better appreciation of things which, otherwise, could very easily be misconstrued.

As you know, it is LL's delegated responsibility to see that lend-lease accounts are settled in a form satisfactorily guaranteeing eventual payment. It is hoped that the present visits of Mr. Holland and Ambassador Berckemeyer to Lima, and the latter's promise to again try to convince President Odria of the desirability of settling the lend-lease debt, will bear fruit,—a variety which will be found palatable to the Department. If that comes to pass, the attached paper will serve as nothing more than as a documentary review of the case. Should the contrary transpire, or should counter proposals advanced by Peru be unrealistic, it may be helpful to all concerned in the matter since, of course, there will have to be a prompt resumption of negotiations in which LL will wish to be represented.

[Annex]

PERU—POSITION PAPER ON LEND-LEASE OBLIGATION

Origin of Program.

Under the authority of the Act of March 11, 1941,[1] there was signed in Washington on March 11, 1942, by the United States and Peru, a formal Lend-Lease Agreement.[2] Under its terms the United States agreed to furnish Peru, under stipulated conditions, defense aid (no civilian) having a cost value to the United States of not more than $29 million. A discount of 58.62% against the value of the aid furnished was extended to Peru and payments were scheduled over a period of years with a *final* payment due on March 1, 1948.

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[1] Reference is to "An Act to Promote the Defense of the United States" (Public Law 11), commonly referred to as the Lend-Lease Act; for text, see 55 Stat. 31.

[2] For information concerning the referenced Agreement, see *Foreign Relations*, 1942, vol. VI, p. 673.

Implementation of the Lend-Lease Program.

Under the Lend-Lease Agreement of March 11, 1942, (generally known as the "Treaty Agreement") aid was furnished at a cost to the United States Government of $16,633,423.50 upon which Peru was charged at 41.38% of that cost or $6,882,910.64. During the late war years Peru deposited in a Lima bank soles which eventually were converted to dollars and a payment of $4 million thus was made on "treaty account" leaving due $2,882,910.64.

Other program accounts were:

A Pipeline Account (undelivered lend-lease materials on V–J Day) representing a cost value of $36,122.30. Under an exchange of letters between the Department (OFLC) and the Peruvian Embassy it was agreed that these goods would be delivered and charged for as though they were within the "treaty account". As a result Peru was billed in the sum of $14,947.41 and, in spite of the fact that payment was promised within a period of 60 days, the account remains long past due.

Cash Accounts representing an aggregate value of $615,762.69 based upon their cost to the United States were facilitated in order that Peru might acquire needed equipment which was not eligible under "treaty terms". These accounts were repayable at full value (100%) and a total amount of $542,878.74 has been repaid leaving a net sum still due of $72,883.95. (Actual figures show $76,647.84 as due and a *credit* item of $3,763.89.)

A Ships' Account covered the disposal of 12 ships furnished under lend-lease (Charter Party). Valued at $1,381,000 these ships were offered to and purchased for cash by Peru at a price of $68,000 or at 4.9% of value. (Equivalent to a discount of over 95%.)

Recapitulation of Accounts

	Cost	*Charged*	*Payments*	*Balance Due*
"Treaty"	$16,633,423.50*	$6,882,910.64	$4,000,000.00	$2,882,910.64
Pipeline	36,122.30	14,947.41		14,947.41
Cash	615,762.69	614,762.69	539,114.85	76,647.84 3,763.89 Cr.
Ships	1,381,000.00	68,000.00	68,000.00	
Totals	$18,666,308.49*	$7,581,620.74	$4,607,114.85	$2,970,742.00

Negotiations Undertaken for a Settlement

As stated, the Lend-Lease Agreement with Peru provided for the full and final payment of the "treaty account" by March 1, 1948. Although reminded both through billings and discreet references made

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*The fiscal reports published in the Reports to Congress show total defense aid to Peru as $18,916,471.85. The difference is due to additional charges which were reported *after* the final billing covering the "treaty account" was sent to the Embassy of Peru. In other words, Peru received equipment having a value of approximately $250,000 for which, because of slow reportings by the United States Services, no charge was levied against the account figures which were established as a settlement base.

Viewed from another angle, Peru received lend-lease aid (Cash Accounts excepted) valued at an aggregate of $18,300,709.16 for which a total charge of only $6,965,858.05 was made, or 38% of cost to the United States of the aid furnished. [Footnote in the source text.]

by the Department that account, as well as the pipeline and cash accounts, remained unsettled at the date set for payment and became "past-due".

Formal negotiations began on March 3, 1948, when Ambassador Ferreyros was asked to come in for a preliminary discussion. During 1948 and 1949 a total of 10 meetings were held with various Peruvian Government officials, a number of formal notes were sent to the Peruvian Embassy and briefing talks were held with Ambassador Tittmann during a visit to Washington.

Among the Peruvian officials with whom discussions were held in the course of the negotiations were Ambassador Berckemeyer who succeeded Ambassador Ferreyros, Senor Pedro Beltran, then President of the Central Reserve Bank of Peru, Senor Foley,[3] Peruvian Comptroller General, and a number of Embassy aides including Arturo Garcia and Carlos Gibson, Secretaries of Embassy. On the other side, in addition to talks with our Ambassador, detailed discussions were held with Charles Bridgett, Commercial Attaché at Embassy, Lima, and with Gene Gilmore who succeeded him in looking after our interest vis-à-vis the Peruvian Government offices in Lima.

The Peruvian reaction in almost every instance seemed to follow a predetermined formula or pattern. In our talks they generally responded evasively, often indulging in overt inconsistencies. Promises were made but never kept. Even our formal notes to the Ambassador remained unanswered until the Embassy was "needled" into action. Ambassador Berckemeyer, in his personal reactions, was mercurial and frequently bored. While professing to be cooperative at one time, he was cool and admittedly disinterested at others. He confessed to disappointment in his Government and said that, despite his efforts to get a settlement made, he was left "in the air" without a sense of direction.

The series of talks held in 1948 and 1949 were continued at intervals throughout the ensuing years. For political and economic reasons there were periods of inactivity by the Department but it had been made clear to Peru that the United States expected these war time obligations to be settled and paid. The responsibilities vested in the Department are clearly defined but, keeping within the terms of reference, every effort was made to be lenient and considerate in our efforts to reach a mutual settlement formula.

Throughout the earlier negotiations there was strong insistence by Peru that the United States take soles and *not* dollars as a medium of payment. Unfortunately both the Government of Peru and our Embassy seemed to have some misconception concerning the policy limitations placed on the Department in respect of foreign currency acquisitions. That policy, in brief, limits the acquisition of such currencies to actual needs of the United States in a given country. The accumulation of foreign currencies for payment's sake constitutes a speculative risk and, as such, is almost invariably avoided.

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[3] Emilio Foley.

Attempts made to limit soles acquisitions to the defrayment of operating expenses of the Embassy and to the financing of a buildings program failed of realization as Peru did not wish to pay any part of the lend-lease balance in dollars. (Later Peru, itself, revived the buildings program matter but it was then too late for FBO appropriations had been used up or committed and prospects for new funds were almost negligible.) The course of these talks was interspersed with requests for old documents and copies of fiscal data which already had been furnished long before.

In a gesture of "cooperation", the motive for which is not clear, Peru made an "offer" to settle the lend-lease obligations by making small monthly soles deposits in a Lima bank over a period of time almost too fantastic to calculate. Then, on March 5, 1952, our Embassy, in its despatch No. 923 of March 3, 1952,[4] transmitted to the Department a new settlement proposal made by Finance Minister Dasso suggesting 6 annual payments, the last to be in 1957, (or payments on a semi-annual basis if desired) *in soles* but with the option reserved *by Peru* to pay dollars instead of soles whenever it felt like doing so! Of course, it wasn't possible to consider such terms and the discussions continued.

Meanwhile the Department was informed by one of its representatives that the Klein Mission,[5] then in Lima, had strongly urged President Odria to expedite a settlement of the lend-lease debt along the lines suggested by the Department. The Mission viewed the delinquent status of the accounts as being detrimental to Peru's credit standing throughout the world. Odria believed that Peru's wartime contribution to the Allies' cause was sufficient repayment for the defense aid Peru had received from the United States and apparently thought that dilatory tactics would eventually lead to the "forgiveness" of the obligation!

During 1952, while the Government of Peru was completing negotiations for resuming service on its government and government-guaranteed debt, long in default to American and British bondholders, overtures were made to both the EXIM Bank and the World Bank for loans. In spite of the fact that some small financial aid was given by the World Bank for certain specific purposes there was strong indication that the continuing default of the lend-lease obligation was considered by the Bank in reviewing loan requests in the fact that inquiries were made of the Department regarding the lend-lease situation. Again, a Secretary of the Peruvian Embassy informed us that, because the lend-lease matter hadn't been taken care of, the EXIM Bank had given the Peruvians the brush-off! Concurrently, rumors reached us that Peru was endeavoring to buy, either from the United States or an European country, a number of jet and other type aircraft on credit.

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[4] The referenced despatch is dated Mar. 5, not printed (723.56/3–552).

[5] The Klein Mission, named after Julius Klein of Klein and Saks, a private management-consultant firm, advised the Peruvian Government on economic and fiscal matters under a contract signed in 1949.

The general situation was discussed at intra-Departmental meetings and the results communicated to our Mission which, in turn, renewed its representations vis-à-vis the Peruvian Government. In a communication dated April 28, 1952,[6] the Embassy, Lima, informed the Department of the acceptance by Peru of a United States payments formula calling for 10 semi-annual installments of about $300,000 each, the first ($244,831.63) to be paid June 30, 1952, and the last ($300,000) to be paid on or before December 31, 1956. All payments were to be in dollars but with the United States holding the option to take enough soles to defray any and all expenses of the United States in Peru. Procedures covering exchange rates and interest on delinquent payments were defined. It is interesting to note that, even before receiving Peru's acceptance of these terms, information was received that funds for the first payments already had been approved and appropriated by the Peruvian Congress. (As the settlement papers continue unsigned it may be assumed that those funds were diverted to other channels.)

On the strength of Peru's definite acceptance of the United States settlement terms there was prepared and sent to the Mission on May 13, 1952, an instruction[6] under cover of which there were transmitted drafts of notes to be signed by our Ambassador, acting for the Department, and the Peruvian Government. Inasmuch as, at one time, Finance Minister Dasso, had himself suggested that a *two year settlement* would be, in his opinion, a reasonable one, the Department believed that the accepted terms would elicit an appreciative reaction from the Peruvian Government.

Again there followed a series of delays of varying sorts occasioned, in part, by visits made to the United States by Minister Dasso and Comptroller General Foley. Assurances were abundant that the settlement documents would be signed when both had returned to their official duties in Peru. However, it was soon reported that, due to failing health, Dasso was resigning. It did not improve the prospects for the lend-lease settlement when there was named as his successor Peru's Ambassador to Argentina, Romero.[7] Whereas Dasso, a pro-American, had exerted his best effort to get a settlement finalized, Romero—said to be anti-American in his sentiments—was ready to adopt President Odria's thesis that Peru owed the United States nothing on World War II account.

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[6] Not printed.

[7] Emilio Romero Padilla.

Minister Romero, during his incumbency, may have felt encouraged to take this opposing position as a matter of expediency. It was a simple matter to view the consistently friendly consideration shown by the United States and even the final comparatively lenient settlement terms as a mark of "softness" on our part,—an imaginary weakness inviting requests for still further concessions in those terms. That thinking may have been abetted by the fact that the Department had, at times, closed its eyes to purchases of military equipment in the United States and abroad by Peru notwithstanding the fact that such practices were contrary to the spirit of a long-standing policy. At any rate, our objectives, in the post-Dasso period, became progressively less promising of attainment.

On September 30, 1954, this matter remains exactly as it was when the negotiations were started on March 3, 1948. Only one constructive step, and that of a minor nature, has been taken. When it was found that final accounting of Peru's interim-arms program would show a moderate refund due that country it was agreed that that money, instead of being returned, would be sequestered in a Treasury Department account and would be credited as part payment of the first scheduled installment concurrently with the receipt of the balance of that installment from Peru in dollars. This is covered in the terms of the settlement notes.

The story throughout 1953 and the earlier part of this year has been almost a repetition of 1952 and earlier years. Energetic representations by our Mission, in an effort to bring matters to a conclusion, have been unproductive. Another fairly long period of inaction was considered advisable on account of the situation in Guatemala.

Hoping that the current visit of Secretary Holland to the South American countries might create an atmosphere favorable to the mention of the lend-lease matter in Peru he was provided by OSA with briefing notes for that purpose. Whether or not related, some encouragement may be taken from the recent series of conversations held with Ambassador Berckemeyer by ARA officers. It is regretted that the Ambassador's talks with President Odria in Lima last August resulted only in an expression of hope that those settlement terms already accepted by Peru would be revised so that payments would be extended, more local currency taken and the principal amount of the obligation written down.

Even with a very deep sense of understanding of the importance of fostering friendly relations with all of the other American republics it is difficult to find rationalization in Peru's aspirations in respect of the lend-lease indebtedness. The negotiations since 1948 have been conducted by the Department with patient understanding and a degree of leniency never accorded so extensively to other Latin countries with which settlements have been made and all of the others have settled their "treaty" accounts leaving Peru the sole exception. (Ecuador and Bolivia owe moderate balances on their "contingent" lend-lease accounts.)

The Department's standing policy has been to maintain the integrity of international agreements and to insist, after due consideration of political and economic factors, that obligations assumed under such agreements be discharged in accordance with their terms. Furthermore, any action taken with respect to Peru would, in this instance, have to be viewed in the light of the non-discriminatory treatment already applied in reaching settlements with other American republics. Any question of writing down the Peruvian debt would be contrary to the Department's past practice and probably would involve the winning over of the Treasury Department and consultations with the Bureau of the Budget, the Comptroller General and possibly even the Congress. It may be desirable to find other means than debt reduction to assist a friendly country financially or economically.

Department Circular No. 25 of May 15, 1953, made mandatory the securing of the approval of the Secretary of State to any new Executive Agreement. Such approval was given to the Peru Settlement Arrangement on the basis of the draft notes prepared within the Department and sent to the Mission in Lima for formal signature. Any relaxation in the terms would necessitate again bringing the matter before the Secretary with supporting argument.

Thinking that perhaps a way might be found, *without* changing a single word of the proposed settlement notes (except payment dates), by means of which the Department might partially alleviate Peru's concern over the foreign currency angle, an effort has been made to canvass other offices in order to determine, if possible, their projected needs for Peruvian soles so that, if the idea were found acceptable to all concerned, the Department might privately inform the Government of Peru of the minimum number of soles it would be prepared to draw down each year of the life of the payments schedule. The results have not been encouraging. Due to a lack of appropriated money some earlier plans for programs in Peru are in suspense with the result that the Department could not now safely assume a responsibility to draw soles for anything other than to defray the normal average operating expenses of the Embassy in Lima which represent a minimum requirement of about $150,000 a year after allowing for consular fees and other normal income.

Perhaps unfortunately, it seems necessary to discard such thinking for, according to present indications, a transaction between Peru and the United States involving wheat appears to be coming to a head. If consummated there will accrue to the United States a vast supply of soles sufficient, if not used for some other directed purpose, to satisfy any and all needs of this Government for soles for a long time to come. In the meantime, and until Peru is ready to establish with the IMF a par value for the sol, the Department would be even less disposed than ever to engage in a commitment to take soles on lend-lease account.

In a conversation held on September 27, 1954,[8] Ambassador Berckemeyer stressed the fact that his Government regarded the lend-lease debt as a valid obligation. As he was returning to Lima the next day he would take the matter up with President Odria again in the hope that he would be authorized to offer a settlement with payments to begin in 18 months or earlier and *in dollars*.

While the Department is constrained to stand upon the *status quo* of the settlement terms consideration would, of course, be given to a rational request for a modest and reasonable modification of the terms if it were found that to grant them would be in our national interest.

Good will should not be unilateral. Where it exists and people strive earnestly and realistically, a way usually can be found, with honor and fairness, to compose differences in a constructive and statesmanlike spirit.[9]

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[8] A memorandum of the referenced conversation, dated Sept. 27, 1954, is in file 723.56/9–2754.

[9] In a memorandum to Officer in Charge of Inter-American Military Assistance Affairs Spencer, dated Oct. 11, 1954, Chief of the Lend-Lease and Surplus Property Staff Murphy stated that "in the absence of high priority security considerations, no further facilities of a military nature should be extended Peru (and Ecuador) until the lend-lease situations have been brought under satisfactory control." (723.56/10–1154)

723.56/10–2254

The Special Assistant to the Secretary for Mutual Security Affairs (Nolting) to the Director of the Foreign Operations Administration (Stassen)[1]

CONFIDENTIAL [WASHINGTON,] October 22, 1954.

DEAR MR. STASSEN: I have been informed that the Government of Peru has requested that it be sold United States Air Force equipment, at a price of approximately $6 million, on terms which would permit payment by installments over a three year period, as provided for in Section 106, Public Law 665, approved August 26, 1954.[2]

The Department of State is of the opinion that the present Peruvian Government has a satisfactory record of making payments on loans extended by United States Government lending institutions, that it is financially able to assume an obligation of $6 million and that it would comply with the terms of an agreement providing for payment of that amount by installments over a three year period. Although the Government of Peru is at present in arrears in payments on its lend-lease account, the Department of State has been advised by the Peruvian Government that Peru is prepared to initiate payments, beginning June 30, 1955, looking toward the liquidation within five years of that debt.

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[1] Drafted by Mr. Spencer; cleared by Messrs. Holland, Woodward, and Atwood.

[2] Reference is to the Mutual Security Act of 1954; for text, see 68 Stat. 832.

The Department of State approves the sale to Peru of military equipment in the amount of approximately $6 million on credit terms and understands that the Defense Department favors the sale for important military reasons. The Department of State believes that other Latin American governments may request the purchase of military equipment on credit terms during the present fiscal year and assumes that it will be possible to offer them credit, provided that:

> (1) the equipment can be made available for sale by the Service Departments; (2) it is determined politically and militarily desirable to comply with the request; and (3) from the economic point of view, taking into account the credit standing of the other government, the extension of credit is considered desirable and justifiable.

Sincerely yours, FREDERICK E. NOLTING, JR.

823.2542/10–2554

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) and the Assistant Secretary of State for Economic Affairs (Waugh) to the Under Secretary of State (Hoover)[1]

SECRET [WASHINGTON,] October 25, 1954.

Subject: Toquepala Project.

Problem:

Views to be expressed by the Department in the discussion of the Toquepala copper project in the NAC meeting of October 26.

Discussion:

The Department has continued to press for a favorable decision on the financing of the Toquepala project in Peru. It has stated that it would be very salutary if a large private investment offering substantial benefits to Peru could be begun. Peru, at a time when nationalistic feeling is rising in Latin America, has been outstanding in its treatment of foreign private investment and, in particular, has adopted a mining code unusually favorable to investments of that nature (Tab A[2]). It is believed that the institution of such a development as Toquepala would create a favorable impression at the Rio Economic Conference.

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[1] Drafted by Director of the Office of Financial and Development Policy Corbett.

[2] Tabs A–F attached to the source text are not printed.

At the time this project was considered by the Defense Mobilization Board, experts in that Agency reached a conclusion that the long-run benefits of a new source of supply of copper in this hemisphere would be of importance to the U.S. It would further diversify our sources of supply in this hemisphere and it would improve our bargaining position vis-à-vis Chile (Tab B).

The only real "limitation" upon the authority of the Bank to finance this project is that of avoiding competition with private capital. A corollary of this "limitation" is that the Bank should in its loans supplement and encourage private capital (Tab C). The present proposal of A.S.&R. contemplates the participation by other partners of $46 million, slightly less than the $50 million of equity capital being supplied by A.S.&R. (Tab D) An increase in the amount of equity capital to be supplied by other partners would place A.S.&R. in a minority position, which it wishes to avoid. The inclusion of Kennecott and Anaconda raises two additional problems for A.S.&R.: (1) both have interests in Chile which might make their participation unacceptable to the Peruvian Government and (2) a combination of such companies in this project may have anti-trust implications.

The Export-Import Bank is prepared to recommend a $90 million loan at 6% for this project. A.S.&R. has stated to both the Bank and Treasury that it would not wish to proceed with this project with less than $90 million of financial assistance from the Government. There are attached the most recent formal credit applications to the Bank by A.S.&R. and the minutes of the last NAC meeting on Toquepala attended by yourself, General Smith and others (Tabs E and F).

Recommendation:

That the Department support for reasons of foreign policy and long-run need for copper the proposed extension of $90 million of credit assistance to the Toquepala project by the Export-Import Bank.[3]

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[3] This memorandum was initialed by Under Secretary Hoover.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 217th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held in Washington, October 26, 1954

[Participants:] Secretary G. M. Humphrey (Chairman), Treasury Department

Mr. W. Randolph Burgess
Mr. A. N. Overby
Mr. Herbert Hoover, Jr., State Department
Mr. Samuel C. Waugh
Mr. Henry F. Holland
Secretary Sinclair Weeks, Commerce Department
Mr. Samuel W. Anderson
General Glen E. Edgerton, Export-Import Bank
Mr. Lynn U. Stambaugh
Mr. Edward Hall, Foreign Operations Administration
Mr. C. Dillon Glendinning (Secretary)

The Chairman asked General Edgerton to outline the Export-Import Bank's thinking on the financing of the Toquepala Copper project. General Edgerton said that the application for Bank financing was for approximately $100 million on a $205 million project. The Bank felt that the minimum Bank financing which would permit the project to go forward would be approximately $90 million. On this assumption, total financing for the project would be as follows:

Millions of dollars	
97	Equity
90	Export-Import Bank loan
10	Other loans
8	Suppliers' credits
205	Total

Given the estimate that the project would be self-liquidating in 12 or 13 years at a 20-cent per pound price for copper, he felt that the following terms would be appropriate. On the interest rate, the NAC formula would work out at a shade less than 5½ percent, but he believed that 6 percent might be reasonable, in view of the favorable prospects of the project. The Bank would be prepared to take notes for the interest payments for the period of construction. Repayment of principal would be made in equal installments over 12 years following the construction period. Assuming the construction period were 5 years, this would make the loan repayable in 17 years.

General Edgerton said that he had discussed with the applicant for the loan making a guarantee of completion of the project a condition of Bank financing. He had also discussed inclusion of an acceleration clause on repayment of principal in the event of an increase in the price of copper.

General Edgerton indicated that the Bank did not expect to charge a commitment fee in this case and generally did not do so.

Secretary Humphrey suggested that a guarantee that the borrower would complete the project was the most important provision. He stated that in operations of this kind actual costs usually run substantially in excess of the initial estimates. Secretary Weeks asked General Edgerton what kind of a guaranty had been discussed with the applicant for the loan. General Edgerton replied that he had not discussed the precise way in which such a guaranty might be expressed in the loan contract but that the general principle had been reviewed. He said that the applicant for the loan had not indicated whether such a guaranty would be an acceptable condition. Following some further discussion of terms, Secretary Humphrey suggested that if the loan were made the terms might be as follows: (1) Export-Import Bank would lend up to $100 million participating in the financing on a 50–50 basis; (2) the Bank's loan would be the senior obligation of the borrower; (3) the borrower would be required to guarantee completion of the project to the Bank; (4) repayment of principal would begin 5 years after the loan and be made over a 15-year period; and (5) interest would accrue from the date or dates of disbursement by the Bank and be payable with the installments on principal.

Secretary Humphrey stated that approval of this project with financing on a 50–50 basis might set a precedent for the financing of a wide range of projects of a similar nature with public funds and discourage private financing. The proposal thus raised major policy issues. In considering some of the issues raised by this and similar projects, the Council discussed briefly the question of the use of public funds to finance competitive enterprise abroad. The Council also discussed the question of whether Export-Import Bank financing of US enterprises abroad tended to discourage expropriation by foreign governments.

Mr. Hoover agreed with Secretary Humphrey that the Toquepala proposal raised some far-reaching issues, but felt that a policy of making loans of this kind would be better than a "give-away" program in South America. Mr. Holland expressed similar views. Mr. Hoover then read from the NSC decision of September 2 with respect to lending in Latin America.[1] Secretary Humphrey stated that this policy would be reconsidered in the Security Council. Mr. Hoover also referred to the *ad hoc* committee on Southeast Asian policy, of which he had been appointed Chairman, where far-reaching questions of foreign economic policy would have to be considered.

Secretary Humphrey said that there were a great number of important policy matters being considered by a variety of committees. He said that Mr. Dodge was working on a reorganization of the Executive Branch in the field of foreign economic policy[2] which should help centralize responsibility for these matters.

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[1] For the memorandum of discussion at the 212th meeting of the National Security Council, held in Washington on Sept. 2, 1954, containing decisions reached regarding United States lending policy in Latin America, see p. 67.

It was agreed with respect to the possible loan for the Toquepala Copper project General Edgerton would submit a proposal to the Council along the lines indicated by Secretary Humphrey above. The Chairman stated that because of the policy considerations raised, he proposed that the matter be discussed with the President[3] before a final decison was made.[4]

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[2] For documentation relating to this subject, see volume I.

[3] No record of such discussion was found in Department of State files.

[4] On Nov. 1, 1954, the National Advisory Council advised the Export-Import Bank that it had no objection to the Bank's consideration of a loan not to exceed $100 million to the Southern Peru Copper Corporation for the purpose of participating in the financing of the Toquepala copper project on not more than a 50–50 basis (NAC Action No. 733; NAC files, lot 60 D 137). The Export-Import Bank approved the loan on Nov. 4; for additional information, see Export-Import Bank of Washington, *Nineteenth Semiannual Report to Congress for the Period July–December 1954* (Washington, 1955), pp. 14–15.

URUGUAY

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND URUGUAY[1]

733.5 MSP/2–2552

Memorandum of Conversation, by John K. Havemeyer of the Office of South American Affairs

SECRET [WASHINGTON,] February 25, 1952.

Subject: Proposed Negotiations for an Agreement to Supply Grant Aid to Uruguay under the Mutual Security Act—1951[2]

Participants: Ambassador of Uruguay, Mr. Mora
Assistant Secretary Miller
AR—Mr. Jamison
OSA—Mr. Havemeyer

Ambassador Mora called on Mr. Miller by appointment to discuss the subject. He explained that he had received a letter[3] from the Uruguayan Under Secretary of Foreign Affairs, Jimenez de Arechaga, stating that the Foreign Minister[4] had not taken any action with respect to initiating talks[5] under the MSA because the Foreign Minister did not wish negotiations to start and then have a change of Government on March 1[6] which would require bringing the Herrerista Party into the negotiations. The Ambassador reiterated his hope that his Government would be able to discuss these negotiations and have them carried through to satisfactory conclusion.

Mr. Miller confirmed the fact that conversations could begin any time prior to March 15. He continued that there were many administrative details which must be accomplished after an agreement is reached and funds appropriated for this fiscal year must be committed prior to July 1. He stated that we hoped to obtain additional appropriations during 1953. Therefore, if an agreement had not been reached with the Uruguayan Government in time and our Congress appropriated money for the new fiscal year it may be possible that negotiations could be carried on under which Uruguay would come into the program at a later date.

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[1] For previous documentation, see *Foreign Relations*, 1951, vol. II, pp. 1611 ff.

[2] Public Law 165, approved Oct. 10, 1951; for text, see 65 Stat. 373.

[3] Not identified.

[4] Alberto Domínguez Cámpora.

[5] On Dec. 21, 1951, the United States had indicated its interest in opening negotiations with Uruguay for a military assistance agreement and a related bilateral military plan.

[6] In 1951, Uruguay adopted a Constitutional amendment which abolished the office of President and established in its place a National Council of Government. This National Council was comprised of nine members, six representing the majority party and three representing the minority party. The new government took office on Mar. 1, 1952.

Mr. Miller assured Ambassador Mora that he hoped Uruguay could enter into this program, and if negotiations do not take place it will make no difference in the relations between our two countries.[7]

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[7] In telegram 345, from Montevideo, dated Mar. 13, 1952, Ambassador Roddan informed the Department that the Uruguayan Government on Mar. 7 had decided to authorize the initiation of conversations with representatives of the United States to consider the possibility of receiving aid under the provisions of the Mutual Security Act of 1951 (733.5 MSP/3-1352). The conversations were subsequently set to open on Mar. 31, 1952.

733.5 MSP/3-1952: Telegram

The Secretary of State to the Embassy in Uruguay[1]

SECRET NIACT WASHINGTON, March 20, 1952—6:50 p. m.

283. No objection amending form press announcement (although language has been generally used re initiation mil talks) to indicate "conversations" rather than "negots" being initiated. No objection withholding publicity until opening conversations Mar 31 (urtel 361 Mar 19).[2] However phrase "looking to conclusion of bilateral MSA" seems basic in placing talks proper context. Dept not concerned so much with actual phraseology press statement as with this additional indication Urug Govt unwilling or unable face up to mutual character obligations comprehended MSA. Acceptance mutuality is integral part US legis. This Govt not desirous undertaking conversations in atmosphere under which Urug public unable realize full implications.

Since initial indication Dec 21 to Urug Govt our interest entering bilateral discussions Urug tactics have evidenced delays and indicated reluctance accept full implications proposed discussions. Some of these delays undoubtedly due internal polit situation and Dept has made every reasonable effort adjust timing Urug necessities. We cannot however concede fundamental concept which involves mutual obligations and not merely Urug decision accept US grant aid. If Urug Govt unwilling even have initial press announcement mention bilateral MSA as such, then it appears to Dept quite possible Urug wld be unable accept realistic language in agreement accordance US requirements. If above estimate accurate then wld appear desirable avoid beginning negots and probable suspension later with resultant adverse publicity.

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[1] Drafted and signed by Deputy Director of the Office of South American Affairs Bennett; initialed by Director of the Office Atwood.

[2] In telegram 361, dated Mar. 19, 1952, Ambassador Roddan reported that Foreign Minister Domínguez Cámpora desired to withhold publicity concerning the opening of conversations until Mar. 31, and also to exclude from the press announcement that would be released any mention of the fact that the purpose of the conversations was to conclude a bilateral military assistance agreement (733.5 MSP/3-1952).

Dept accordingly desires know FonMin suggestions re modifying press announcement phrase on conclusion bilateral MSA. Emb estimate desired on seriousness Urug approach to discussions. Reply urgently view contemplated departure mil team Sun Mar 23 from Wash for scheduled arrival Montevideo night Mar 26.[3]

ACHESON

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[3] In telegram 366, from Montevideo, dated Mar. 21, 1952, Ambassador Roddan reported that Foreign Minister Domínguez Cámpora had given assurances that Uruguay was definitely serious about the prospective negotiations, and that he appeared to believe that the draft press release prepared by the Department would not present a major difficulty. The Ambassador recommended that the U.S. negotiating team proceed to Montevideo as planned. (733.5 MSP/3–2152)

Miller files, lot 53 D 26, "Uruguay"

The Assistant Secretary of State for Inter-American Affairs (Miller) to the Ambassador in Uruguay (Roddan)

CONFIDENTIAL [WASHINGTON,] March 24, 1952.

DEAR ED:

[Here follow personal comments.]

The new government has certainly done well so far in its principal tests. In addition to suppressing the Peace Congress and going along with the bilateral military conversations, its action in suppressing the public health strike seems adequately vigorous.

[Here follow additional personal remarks, references to Cuba, and to the book by Havelock Ellis entitled *The Soul of Spain*.]

I have been gravely concerned with your remarks about the wool situation.[1] The gravity of my concern arises not simply from what you say but from the fact that on top of all this the Treasury Department is seriously considering the imposition of countervailing duties on wool tops from Argentina and Uruguay on the theory that the multiple exchange rate system in operation in those countries amounts to a bounty or subsidy. This, of course, is a highly debatable point, but the Treasury is under strong pressure from Senator O'Mahoney[2] and the wool growers, and their eagerness to get the Customs Simplification Bill[3] passed by Congress in this session makes them particularly vulnerable to this kind of pressure. We are trying desperately to hold the line but it is a difficult matter to fight on since Treasury claims that the law is mandatory. I can imagine nothing that would more seriously damage our relations with Uruguay than this or which would tend to throw them into the arms of the Argentines, much as they would hate so to be thrown. As for the Argentines, this, coming on top of our difficulties with Bolivia over tin and our current negotiations with Chile over the price of copper, would be just about the last weapon that they would need to have in their arsenal of anti-American propaganda.

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[1] In his letter to Assistant Secretary Miller, dated Mar. 17, 1952, Ambassador Roddan stated in part the following: "Uruguay is definitely feeling the pinch caused by failure to dispose of the wool crop and it may have serious consequences. The Foreign Minister mentioned the wool problem, without suggesting that we take up the situation with our government. There is no doubt that Uruguay is looking toward the United States in the hope that something may be done and I wish it were possible to find an answer. However, in the present state of affairs, I do not see how our government can guarantee a high price for the world wool crop or make an exception for Uruguay. Meanwhile, only about one-fifth of the wool crop has been sold and the new crop will be coming along in a few months. The government budget is sharply unbalanced, the lack of dollars is severely felt, and wage strikes may be numerous in the next few months." (Miller files, lot 53 D 26, "Uruguay")

I have just come from a long meeting in the Treasury Department to which I went with Willard Thorp but we encountered very stiff resistance. The matter is not yet finally settled but it is very hard to counter Treasury's arguments that a bounty or subsidy is indirectly conferred upon producers of wool tops by virtue of their enjoyment of a more favorable exchange rate than that in effect for the bulk of Uruguay's exports. We are playing for time and, at the very least, I hope that we will have a chance of discussing this in full with the Uruguayans before any final determination is made.

I hope your health will continue to be better, and again many thanks for your letter.

Please give my best to Ed Trueblood.[4]

Sincerely yours, EDWARD G. MILLER, JR.

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[2] Joseph C. O'Mahoney (D.–Wyo.), Chairman, Interior and Insular Affairs Committee.

[3] For documentation concerning this bill, see volume I.

[4] Edward G. Trueblood, Counselor of Embassy, Montevideo.

411.006/4–142

Memorandum by the Assistant Secretary of State for Economic Affairs (Thorp) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] April 1, 1952.

Subject: Treasury's Proposal to Impose Countervailing Duties on Argentine and Uruguayan Wool Tops

Problem

Section 303 of the Tariff Act of 1930,[2] the countervailing duty law, provides that the Secretary of the Treasury shall impose an additional duty on imports of any dutiable products upon which any country ". . . shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export . . ."

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[1] Drafted by Director of the Office of Regional American Affairs Cale; Deputy Director of the Office of Economic Defense and Trade Policy Vernon; the Assistant Chief for Exchange Rates, Monetary Affairs Staff, Matilda L. Milne; and Mrs. Margaret Hardy Potter of the Commercial Policy Staff.

[2] Public Law 361, approved June 17, 1930; for text, see 46 Stat. 590.

Treasury now proposes to apply the provisions of the law to a fairly extensive group of new cases. Initially, the Treasury would apply countervailing duties to wool top exports from Argentina and Uruguay, on the grounds that exporters are receiving a bounty through the operation of a system of multiple exchange rates. Simultaneously, or perhaps shortly thereafter, all other products moving from these countries at the same or more favorable rates would be subjected to countervailing duties. This would probably be followed by an examination of the various multiple exchange rate and export retention schemes in effect around the world, to determine the extent to which countervailing duties should be applied to these.

If the Treasury were to apply this new policy with restraint, its initial effects would be principally in Latin America; as nearly as we can judge, about nine countries would be involved, and the affected trade would amount to over $100,000,000. If the Treasury extended the approach to any degree, a considerably larger number of countries, and about twice as much trade, would be involved.

We recognize that the interpretation of the statute is Treasury's primary responsibility under the law. However, the interpretation Treasury now proposes adopting, an interpretation which would declare the use of multiple exchange rates in most cases to involve a bounty, is not clearly required by the law. The foreign policy implications of Treasury's proposal are so extensive as to justify intervention by the Secretary and, if need be, by the President.

Recommendation

1. It is recommended that you discuss the problem with Secretary Snyder, making the following arguments against Treasury's proposed action. (For amplification, see the latter part of the "Discussion", beginning at page 4, which has been numbered to parallel the paragraphs below.)

a. The action will profoundly disturb relations with a good many countries, particularly those in Latin America. It will increase our difficulties in obtaining their scarce materials and conflict with our objective of encouraging the development of sound processing industries.

b. The action is not an appropriate way of forcing other countries to adopt unitary rates. Our representative in the International Monetary Fund could press the case more constructively and with less "big-stick" appearance.

c. There is room for genuine doubt whether a subsidy does exist in the wool tops cases. Treasury found that none existed a year ago, though the rates were the same then. The rate structures of Argentina and Uruguay are such that these governments are making a profit on the resale of the dollars they buy from the wool-top exporters, which hardly indicates that a bounty is being paid these exporters.

d. This action will not ease the passage of the Customs Simplification Bill in its present form, as Treasury assumes. On the contrary, it is likely to kill the provisions of the bill which circumscribe the circumstances in which countervailing duties can be applied.

2. If Secretary Snyder does not agree to refrain from action in the wool tops cases on the grounds outlined above, it is recommended that you suggest both of the following steps.

a. The President should be consulted immediately on the problem with a view to obtaining the adoption of the course set out in paragraph *b.*

b. The Administration should approach Congressional leaders and should explain that Treasury is not prepared to impose countervailing duties in the wool tops case in view of the possibility of real doubt that a subsidy in fact exists, within the meaning of the law as it is now phrased; that Congress may wish to give a clearer indication of its intent in connection with the consideration of the Customs Simplification Act; and, if so, that Treasury and State would like to testify on the implications of the various possible policies which might be adopted.

Discussion

There are various devices which the courts, at one time or another have ruled to be within the purview of the countervailing duty law since its prototype was first enacted in 1897. Nevertheless, Treasury has made very little use of the law, and in recent years, at least, has only applied the law in response to specific substantial complaints.

There are a good many governmental measures in effect around the world which, intentionally or not, may affect the volume and composition of countries' exports. Multiple export rates, whereby the stated local currency return per dollar of exchange earned varies according to the class of transaction, is one of these measures. Attached hereto as an Annex[3] is a table showing the countries employing multiple rate systems; also shown are countries employing other systems which might be said by those desiring to impose countervailing duties to have analogous effects to a multiple rate system.

In trying to determine whether a system of multiple rates results in a bounty to particular commodities, there is always room for an honest difference of views. One of the difficulties boils down to the fact that there must be an arbitrary judgment as to what is the "true" rate of exchange, and in what direction the particular multiple rate deviates from the true rate. What Treasury now proposes is apparently to adopt as the "true rate", the rate at which the bulk of a country's exports move, and to consider that any more favorable rate constitutes a bounty in the amount of the difference.

As the attached table indicates, over half of our imports from Argentina would be affected by this ruling, as would substantial proportions of our imports from other principal Latin American countries.

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[3] Not printed.

The following comments amplify the arguments which it is suggested be used against the proposed Treasury action.

a. Treasury's action will profoundly disturb our relations with many countries, particularly Latin America where there is already dissatisfaction concerning failure of the United States to allocate adequate quantities of scarce materials, high prices of United States exports, and low prices which the United States is willing to pay for the strategic and critical materials which we need from these countries. These countries may well react in a stiffer attitude in our negotiations with them to obtain critical materials. Moreover, greater obstacles to sales to the United States will strengthen the hands of elements in those countries favoring sale of strategic materials to the Soviet Union, which is in some known cases offering higher prices than United States importers; these offers have so far been turned down under export restrictions maintained at our urging. For example, the Communists in Uruguay are asserting that Uruguayan wool, which would sell in the United States for only 23¢ per pound, could be sold to the Soviet Union for 40¢ per pound. Although Uruguayan wool exports to the United States are down about 85 percent, none has been sold to the U.S.S.R. in line with a policy of not exporting to the Soviet bloc. If, as a result of pressure, the action is extended by analogy to the dollar retention and related export schemes of Europe and Middle and Near Eastern countries, its effects will be even worse. It will significantly reduce the dollar-earning capacity of the countries affected, increasing the need for direct financial assistance, and aggravating the dollar shortages which have been a major factor in developing the multiple rate systems. In fact, some of the incentive schemes which would give rise to countervailing duties under Treasury's new interpretation of the law, were urged on those countries by ECA.

b. In view of the fact that the United States favors unitary exchange rates and deplores resort to multiple exchange rate practices, the proposed measures will be widely interpreted as an attempt on our part to force other countries to abandon multiple rate systems and to adopt unitary exchange rates. Since most important trading countries in the world, including the United States, are members of the International Monetary Fund, the constructive policy for the United States would be increased efforts to exert appropriate pressure in the Fund to persuade members with multiple rate systems to simplify their rate structures.

c. There is genuine doubt, in the wool tops cases, whether a subsidy does result from the practices in question. Argentina is pursuing a general policy of discouraging agriculture, and has adopted export rates on agricultural products which are consistent with this objective; moreover, like other South American countries, Argentina has long relied upon export taxes on basic products as a source of revenue; both the proceeds of wool tops exports and of raw wool exports are a source of profit to the Argentine Government in that the dollars purchased from these exporters are resold, on the average, for more than the Government has paid for them.

In Argentina the present rates on wool tops have been in effect more than a year; in Uruguay for more than two years; some of the multiple rate situations which would now become the basis for countervailing duties have existed for much longer. Treasury previously found, in December 1950, that this same wool tops situation results in no bounty.

d. As to Treasury's contention that if action is not taken the Customs Simplification Bill will be jeopardized, we believe that the proposed Treasury action is no less prejudicial to the bill. The Customs Simplification Bill, as passed by the House, amends the countervailing duty law to require that injury be shown as a condition to the imposition of duties. Our feeling is that it will be impossible to secure this amendment if the effect would be to remove a basis for acting under the law with respect to a class of cases on which Treasury had recently acted. To be sure, if Treasury withholds its decision or refuses to impose the wool-tops duties, serious risks still would exist; but it might then be possible for the Administration either to propose or to accept as a further amendment to the law some reasonable definition of the cases in which multiple rates will be considered to bestow bounties, which definition might then be added to the law along with the insertion of the injury test.

Miller files, lot 53 D 26, "Uruguay"

The Ambassador in Uruguay (Roddan) to the Assistant Secretary of State for Inter-American Affairs (Miller)

SECRET OFFICIAL–INFORMAL MONTEVIDEO, April 22, 1952.

DEAR ED: I made myself a pledge never to burden you with long letters but the political stream is moving so swiftly that I think you should have adequate background information. This is being written at intervals between engagements and I imagine that before I finish "new developments" may make many of the observations out of date.

My initial plunge into diplomatic negotiations was certainly baptism by immersion. The MSA got into trouble from the outset due in some measure to the temperament of Dr. Domínguez, partly to the inexperience of our military negotiators, and in good measure to the explosive political situation which has been engendered here.

Domínguez started the trouble, a week after the talks opened, by summoning only myself and Trueblood to a meeting at which he said the entire Military Plan would have to be rewritten because it was written in the "imperative", and contained commitments which were utterly unthinkable under the Uruguayan Constitution. In response to my plea he declined to submit changes in phraseology but handed me the job of making a complete revision. Obviously that was impossible.

To keep the talks moving, I drafted a single provision which provided adequate constitutional safeguards—in fact it was very largely drafted beforehand because I had anticipated some such objection to the overall agreement. The US military negotiators at first agreed but the next morning were unanimous in declining to make any overtures to Domínguez. They bitterly resented the fact that he had omitted them from discussion of the Military Plan, they insisted upon the letter of their instructions, and in general their attitude was that Domínguez must take it or leave it.

In fact, their attitude was so rigid that at first I concluded that the phrase "military negotiator" must be a contradiction in terms. After many long weary hours of discussion however, they have come around very nicely and on the whole have done as good a job as could be expected.

[Here follow personal remarks.] Because he [Domínguez Cámpora] undertook the wool problem, he had us meeting nights on MSA when we should have been meeting days with fresh minds and plenty of time. Worst of all, he insists upon meeting in his own library without adequate office help. The result is that when he has a proposition to submit, we get one copy in Spanish and no English text. This resulted in a ludicrous situation last Saturday when he handed us a text on which we could agree only to be informed later when we returned to the office that the draft given us had been wholly erroneous.

Yet he has real and tremendous problems and there are indications now that the issue of MSA has completely shattered the collaboration between Colorados and Herreristas on the Council and it may even completely paralyze the entire system of Collegiate government. It has already forced out Foreign Minister Castellanos[1] and it will certainly rock Congress, if the pact is ever submitted, in explosive debate.

Basically, the trouble would have occurred at some time because the majority party leaders were so unrealistic in bringing the minority party into the executive branch of the government. They invited the lion into the parlor and now they're paying the penalty. In the first few weeks, because pride was at stake, the Council moved with such firmness and decision that everybody was agreeably surprised. But the first real problems they hit—MSA and the financial crisis—put an end very quickly to the atmosphere of superficial cooperation and developed deep-seated antagonisms which may spell extreme danger in the not too distant future.

However, I am still convinced that despite the mercurial qualities of his temperament, Doctor Domínguez deserves help because he has a hard problem at hand and because he and his group are our genuine friends. If we lose out here, we may lose the last bastion of friendship for the United States on this end of the continent. The Constitutional provision which gives Parliament authority over sending troops abroad is definite and it must be met. The argument about submitting all international agreements to Parliament is less convincing because that provision has been in the Constitution for 75 years and Uruguay has had no difficulty in carrying on its foreign relations in realistic fashion. In fact, Dr. Dominguez explained confidentially how he once tried to get a secret commitment from Brazil, as an offset against Argentina, without getting more than a restatement of traditional Brazilian policy. Domínguez knows that the security of Uruguay lies in the Organization of American States which actually means the military power of the US. But there are two immediate factors which concern our country:

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[1] Daniel Castellanos.

1. Isolation is being fanned by the minority party and it may be spreading. Apparently, it was bitter feeling over MSA which forced the Foreign Minister's resignation.
2. This new government leaks like a sieve. There is a trend towards "French journalism" in which the opposition lets out all secrets to its favorite press. "*El Debate*" was first to print that Dr. Domínguez was handling both wool and MSA and it was first to print the rumor of the Foreign Minister's resignation. If it goes to the point where minority members reveal even the details of secret negotiations, perhaps even hinting at military plans, then obviously our policy must come under review. So far this has not happened but I am apprehensive.

In a general way, the contagion of unrest throughout Latin America may be spreading here, helped along, of course, by the current financial crisis. A huge build-up has been going on for some time for Batlle Berres[2] arrival tomorrow and there are the usual rumors that he may take measures against the National Council. So far this is merely idle talk without basis in fact.

I believe Uruguay may ask for some kind of a money loan from the US to substitute for wool revenues but they have made no approaches thus far. If the financial crisis is solved, things may settle down and the Council may be able to worry through. They realize here that any attempt to link up wool and MSA would be fatal.

Your letter[3] to Dr. Dominguez was wholly adequate and helpful. Sorry you are not coming here but the reasons are sound.

With best wishes.

Sincerely,

Ed

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[2] Luis Batlle Berres, former President of Uruguay and one of the leaders of the Colorado Party.

[3] Not identified.

833.131/4–2452

Memorandum of Conversation, by John K. Havemeyer of the Office of South American Affairs

CONFIDENTIAL [WASHINGTON,] April 24, 1952.

Subject: Uruguayan Exchange Rates with Special Emphasis on the Rates Applied for the Export of Wool Tops.

Participants: Ambassador Mora
Sr. Bermudez, Commercial Counselor
Deputy Assistant Secretary Mann
Mr. Havemeyer

Ambassador Mora said that he had received a cable[1] from his Foreign Office which contained a draft decree law which would remove the decree law issued April 5, 1952, banning the export of wool tops. The new draft would provide for the export of wool tops at the rate of 1.519 pesos to the dollar. He asked Mr. Mann what he thought Treasury's reaction would be to such a proposal. Mr. Mann replied that he believed Treasury would find such a decree law acceptable, but he suggested that the Ambassador make an appointment directly with Under-Secretary Overby of the Treasury to ascertain Treasury's views with respect to the proposed decree law. The Ambassador read the new decree law in Spanish, and it was noted that in the "whereases" the proposed decree provided agreement with the U.S. laws.

On April 25 officers of the Treasury Department including Messrs. Southard, Fields, Willis, Hebbard, McNeill, deBeers, and Messrs. Corbett and Havemeyer from State attended. The Treasury Department was informed of the proposed Uruguayan decree law which Ambassador Mora intended to discuss with Under-Secretary Overby. Several Treasury representatives thought that this proposal would temporarily solve the wool top problem vis-à-vis U.S. countervailing duties, but at the same time would create new problems with respect to the Uruguayan multiple exchange rates. The primary feeling was that this action by Uruguay would pave the way for other changes in the Uruguayan exchange rate system. It was agreed that such a decree law was a temporary measure for the Uruguayans prior to deciding what to do with their multiple rate structure. Mr. Southard reported that Dr. Paraguana,[2] the Uruguayan representative on the IMF, thought this step made no sense for Uruguay, as it does not deal with the overall problem of the monetary exchange rates. Regardless of what was said in the Treasury Department, Paraguana will coach the Uruguayans on this subject. Dr. Paraguana thinks the only way to solve the problem is to consolidate the buying and selling rates. Mr. Southard and Dr.

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[1] Not identified.

[2] Octavio Paraguana.

Paraguana both agreed that an intermediate buying rate between 1.519 and 2.35 would be the most satisfactory for Uruguay but that it was up to the Uruguayans to make the proposals on their rates to the IMF.

It was recognized that Uruguayan revenues depended for a large part on the spread between its buying and selling rates. Mr. Southard said that we had actually two problems, one of working on the Uruguayan exchange rates in the IMF, and two, countervailing duties as interpreted under U.S. law. The encouragement for the enforcement of this law by members of Congress was also emphasized. Mr. Southard said that his testimony before the Senate Finance Committee had given fair warning to those members of Congress interested in the problem that if a higher unitary rate than 1.519 were applied to raw wool exported from Uruguay, larger quantities would move immediately than are presently moving under the 1.519 rate.

Mr. Hebbard reported that all the Uruguayan rates which became effective October 6, 1949, were temporary rates and that at that time Uruguay had agreed to continue to look into the problem in order to further simplify their exchange rate structure. Consensus was that the new Uruguayan decree law would ease the problem now in Congress vis-à-vis Argentina and Uruguay. It was agreed that Mr. Overby advise Ambassador Mora that as a temporary measure the immediate pressure in the U.S. would be removed and that we had no objection to the proposed decree law. In addition he was to remind the Ambassador that as long as multiple rates existed in Uruguay, the U.S. would be faced with the problem of countervailing duties on dutiable commodities exported by Uruguay to the U.S.

The broad policy of the U.S. attitude toward multiple rates, subsidies and bounties was discussed. Mr. Southard requested that his testimony given before the Senate Finance Committee be used as Treasury's policy and that studies be made of all countries which had multiple rates or subsidies and that a decision be arrived at in order to find which countries fall within the criteria outlined in his testimony. Specifically, Argentina, France, Yugoslavia, Ecuador, Chile, and Venezuela were mentioned. The problem in Ecuador was given more emphasis than the other countries.

(Subsequent to the above meeting Mr. Mann spoke with Mr. Bermudez by phone and it was learned that Ambassador Mora had decided that he did not wish to have an interview with Under-Secretary Overby prior to his departure for Uruguay on April 29. He intends to spend one week in Uruguay in consultation with officials of his Government with respect to the entire exchange rate structure in Uruguay. Upon his return, if appropriate, he will then request an interview with Mr. Overby. Mr. Havemeyer informed Ambassador Mora of the position taken at the working-level meeting in Treasury with respect to the new proposed decree law.)

733.5 MSP/5-852

Memorandum of Conversation, by the Deputy Director of the Office of South American Affairs (Bennett)

CONFIDENTIAL [WASHINGTON,] May 8, 1952.

Subject: Negotiations with Uruguay for Military Agreement

Participants: Lt. General Charles Bolte, Deputy Chief of Staff (Army)
Major General Robert Walsh
Col. Crawford[1]
Col. Hall[2]
Mr. Mann, ARA
Mr. Jamison, AR
Mr. Bennett, OSA

The meeting was arranged in General Bolte's office in connection with Mr. Mann's forthcoming trip to Uruguay to assist in the negotiations for a military agreement between the United States and Uruguay.

General Bolte emphasized the strong interest of the Joint Chiefs of Staff in achieving a military agreement with Uruguay. He said that the Joint Chiefs have no desire to quibble over phraseology in the Agreement or Plan so long as the requirements of our law are met. In response to specific questions from Mr. Mann, General Bolte stated that the Joint Chiefs are entirely agreeable to inserting language in the agreement which would provide that action to be taken in the future by Uruguay should be in accord with her constitutional procedures. The General stated that there would be no objection on the part of the Joint Chiefs to other changes with respect to specific missions assigned Uruguayan military forces so long as the Uruguayans understand that materiel can be furnished them only for specific missions set forth in the military Plan. The General indicated that there would be no problem in adding language regarding other missions by Uruguay to be agreed on in the future by the two parties. He assured Mr. Mann that he could negotiate with entire confidence on the above points in the knowledge that he enjoyed the full backing of the Joint Chiefs of Staff.

In sum General Bolte stressed that the Pentagon is interested in agreement with Uruguay and has no desire to be unduly meticulous over phraseology. General Bolte commented that the amount of materiel being allocated for the Latin American program is not large comparatively speaking and added that there might well be difficulty with deliveries, at least on the larger items; he expressed the view that the primary importance of the agreement with Uruguay is its indication of solidarity between our two countries. The important thing is that a Government give indication that it is prepared to do the right thing in the future if trouble should come.[3]

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[1] Stuart F. Crawford.

[2] Presumably James M. Hall.

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[3] On June 30, 1952, Ambassador Roddan and Foreign Minister Pittaluga signed, at Montevideo, a Military Assistance Agreement between the United States and Uruguay, which entered into effect on June 11, 1953; for text, see Department of State Treaties and Other International Acts Series (TIAS) No. 2778, or *United States Treaties and Other International Agreements* (UST), vol. 5, p. 197.

833.311/12-1552

The Ambassador in Uruguay (Roddan) to the Department of State[1]

SECRET
No. 459

MONTEVIDEO, December 15, 1952.

Subject: Uruguayan Foreign Minister[2] Protests Delivery of *Aide-Memoire* on Plight of American Packers.

The Ambassador and Mr. Trueblood went to see the Foreign Minister on Saturday morning, December 13th, at his request. The Foreign Minister was alone. We were not advised in advance of the subject of the meeting. We were not long in doubt because the Foreign Minister immediately launched into a vigorous oral protest against the *Aide-Memoire*[3] which had been delivered to the Foreign Office on December 9 and which had set forth the present financial plight of the American Frigorificos and the fact that they have been compelled to suspend operations because of the numerous restrictions imposed by the Uruguayan government.

We assumed that the Foreign Minister had discussed the subject the night before with at least some members of the National Consejo or with other government officials and that this probably accounted for the intensity of his feeling.

The Foreign Minister got to the point at once by stating that while efforts would be made to relieve the situation, it would be better to consider that the "*memoire*" had never been delivered because of the attendant embarrassment if it should become public. The Ambassador replied that our government would be advised of his viewpoint, adding his personal belief that any question which might cause concern between friendly governments should be the subject of full and frank discussion.

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[1] Drafted by Ambassador Roddan.

[2] Fructuoso Pittaluga.

[3] The referenced *aide-mémoire*, dated Dec. 9, stated that the meat packers (frigorificos) were confronted with a situation that made it impossible for them to continue to engage in slaughtering operations. This situation was the result of delay on the part of government officials in fixing and approving production costs, failure of the government to liquidate its indebtedness to the companies, the companies' inability to market stocks of meat in storage, and the government's preferential price system which prevented the companies from buying cattle on a freely competitive basis. A copy of the *aide-mémoire* was transmitted to the Department of State under cover of despatch 451 from Montevideo, dated Dec. 11, 1952 (811.05133/12-1152).

The Foreign Minister then responded at length and with emphasis. He denied the right of diplomatic intervention in behalf of private interests and again requested that the Ambassador consider the *Aide-Mémoire* as not having been presented. He proceeded to point out what he considered would be the "unfortunate effects" upon the pending ratification of the MSA agreement if it should become known that the American government had made representations on behalf of private packers. While his manner was not rude, his tone and the stern manner of delivery certainly seemed excessive even allowing a margin of tolerance for the fine sensibilities of Uruguayan officials. It was a "dressing down" for the Ambassador. The fact that the *Aide-Mémoire* had been cleared by Washington was not mentioned in the conversation, so it is not known whether the reproof was also directed to our government.

The Ambassador again thanked the Foreign Minister for his frank exposition of the views of the Uruguayan government. He ventured to remark that the American Congress has always taken the view that the application of tariffs under U.S. law was solely a matter for internal determination. But when it seemed that the good relations of our government with Uruguay might become involved over the question of wool imports, the Department of State had not only welcomed but solicited an expression of views on the part of the Uruguayan government. The Foreign Minister replied that the cases were not analogous, that the issue at stake on wool tariffs was wholly one between governments. The Ambassador courteously disagreed stating that wool was sold by private owners to private buyers and that the issue was the proper application of a law passed by the United States Congress. There was no further discussion of that point. This undoubtedly will give further pain to the Uruguayan officials who frown upon a discussion of meat and wool in the same conversation. But it may be added in extenuation that the wool question has at least as much pertinence to the current problem as the possible refusal of Uruguay to enter into a mutual assistance pact with the United States.

The Embassy feels that the incident was unpleasant but that the course pursued by our government was eminently right and that it should not have been avoided merely because it might have unpleasant consequences. At least it has partially cleared the atmosphere over a problem that has been most disturbing for the past three years and may continue to be so for some time to come. The preceding Ambassador[4] worked faithfully to bring about a satisfactory solution and so has the present Ambassador. The conversations were informal and no effort has ever been made to bring pressure upon the Uruguayan government. In fact, the spurned *aide-mémoire* merely outlined the present circumstances in which the United States packers find themselves. These oral representations were received politely and assurances given which have never been fulfilled.

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[4] Christian M. Ravndal, June 1949–October 1951.

In the *New York Times* account of the debate over the Uruguayan resolution about the right to exploit national resources (before the UN General Assembly's Economic and Financial Committee) it was reported that the Mexican member asked if the resolution would bar diplomatic representations but "the point was not cleared up". Perhaps it has been cleared up here. The American packers, rightly or wrongly, feel that their interests are being expropriated indirectly by the Uruguayan government and it does seem that the question should be a matter of legitimate inquiry by our government. But the Uruguayan government apparently resents this as somehow infringing upon its sovereignty.

Basically, there has been no change in the Uruguayan attitude. The Embassy has been aware all along that the Foreign Office received even the most informal representations on this question with reluctance and that, as far as can be ascertained, nothing has ever been done looking to an alleviation of the situation. The Embassy takes the view that for the present at least nothing further should be done here.

Meanwhile, the plight of the American packers is really serious. They cannot resume operations unless the parent companies reverse their present attitude and send down capital from the United States or they receive payments from the Uruguayan government. It is doubtful that the cause of the packers has been set back by the incident outlined here and it may be that after the Uruguayan officials have time to reflect, the packers may get some relief. The situation cannot drag on indefinitely despite the attitude of the Uruguayan government that it is not a matter for representations between governments.

EDWARD L. RODDAN

833.311/1-2253

The First Secretary of the Embassy in Uruguay (Stuart) to the Department of State[1]

CONFIDENTIAL MONTEVIDEO, January 22, 1953

No. 531

Ref.: Embassy D–521 of Jan. 16, 1953,[2] and previous.

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[1] Drafted by Mr. Stuart, with the assistance of Ambassador Roddan.

[2] Not printed (833.311/1-1653).

Subject: Critical Problem Raised by Shutdown of American Packing Plants in Montevideo: Brief Summation of Historical, Economic and Political Factors Involved.

The present shutdown of American packing plants in Montevideo, Compañia Swift de Montevideo and Frigorifico Artigas, S.A. (Armour), and the danger that this shutdown may become permanent constitutes one of the most serious problems between the Government of the United States and the Government of Uruguay. This despatch is an attempt to review the situation as it now stands and put together in one place the enormously complicated factors involved.

I. *Background.*

The basic trouble of the private packers stems directly from the fact that they are competing against a government-sponsored slaughtering house in a country which is semi-socialistic in character and tradition. This means competition, not only for markets and competition in price, but competition also for cattle, the essential raw material of their business, because the number of animals available for slaughter by the private packers is becoming less each year. And each year, the Uruguayan-sponsored frigorifico is demanding—and getting—new concessions for their business at the expense of the American and British firms.

To understand how the present situation came about, a brief historical review may be helpful. Uruguay since the time of its settlement two centuries ago has been a land of cattle and sheep. In the last century, the animals were slaughtered for home consumption with only a small amount of jerked beef, hides and fats going into the export market. Then the American packing houses came here shortly before the first world war, and the shipment of frozen beef for export became an essential part of the Uruguayan economy. Later, British interests established the Anglo packing house at Fray Bentos, a small city on the River Uruguay about 125 miles from Montevideo. This packing plant still supplies all the meat for Fray Bentos besides shipping frozen beef and processing by-products. Until the foreign packers arrived, by-products were largely wasted.

In the early part of the 20th century, the dominant Batllista faction of the Colorado Party set about transforming Uruguay into a semi-socialistic state. During subsequent years the government, under Batllista control, assumed ownership of a number of public utilities, set up a government-owned insurance system and a government bank. There has been a constant urge to extend the area of public ownership.

In 1928 Frigorifico Nacional was established as a packinghouse in competition with the private firms. The economic set-up of this concern is complicated. Private citizens, many of them cattle raisers, are on the board of directors but essentially it is a public business and the government has assumed the payment of its operating deficits. At the time of its establishment, Frigorifico Nacional was described as an "*ente testigo*"; in other words, it was conceived as a "witness" or yardstick to measure and perhaps control indirectly the profits of foreign-owned packers. The idea behind it was that the cattle growers of Uruguay were at the mercy of foreign interests who, because of their monopoly position, could fix cattle prices at whatever figure they wished.

In the intervening years, Frigorifico Nacional has been the fastest growing unit in the packing business, due largely to the advantages conferred upon it by the Uruguayan Government. In fact, the original conception of Nacional as an "*ente testigo*" is outmoded. It is now the giant of the packing business and it is constantly engaged in a grim campaign to enlarge its operations at the expense of the private packers.

The American packers are convinced that the aim of Nacional is the ultimate extinction of the private packers, thus giving Nacional a complete monopoly. The reason behind this is not merely the natural desire for growth, but in the view of the American plant owners, it is motivated also by the fact that the private plants are more efficiently operated and hence their existence is a constant source of irritation to the operators of Nacional.

In its campaign against the private packers, Nacional has powerful political backing. As pointed out earlier, the majority Batllista political group has traditionally favored government ownership and, accordingly, tends to be sympathetic toward Nacional. It appears to have the support of strong associations of rural cattle growers. It has the support of leaders of the Herrerista Party, the minority, nationalistic party which traditionally has represented the interests of the large agricultural landowners and which is anti-United States in its political orientation. One of the Herrerista members (Alvaro Vargas) of the National Executive Council was for years retained by Nacional as its lawyer. And finally, the regulation of the packing industry is to a large extent in the hands of the Ministry of Agriculture and the evidence seems to support the view that many department officials are favoring Nacional against the legitimate interests of the private packers.

II. *Present System under which Packinghouses Operate.*

The private packing houses in Uruguay have been operating under an exceedingly complex system of government control. The essential elements of that control, as the Embassy understands it, may be briefly summarized as follows.

1. The prices which must be paid the producers for most types of cattle are fixed by the government. The cattle producers represent a powerful political group within the country and the prices appear to be fixed primarily on the basis of internal political considerations. Com-

petitive bidding among buyers in the livestock market is thus eliminated and the influence of consumer prices (prices in the world export market in the case of meat for export and domestic consumer prices in the case of meat consumed internally) which would exist under a free system is eliminated.

2. The principal markets for exportation of meat are divided among the several private frigorificos and Frigorifico Nacional (the government sponsored packinghouse) on a quota basis. Quotas allocated to several packinghouses bear a rough relationship to the historical export business of the respective houses. Export is controlled not only in the sense that each house must keep within its export quota but also in that prices obtained must be approved by the government. In the case of exports to the UK, the principal single export market, prices are fixed by inter-governmental agreement; in the case of shipments to the so-called free market, prices obtained must meet the minimum figure established by the government.

3. Frigorifico Nacional has a practical monopoly on the slaughter of cattle for consumption in the Montevideo market. In order that Frigorifico Nacional may obtain sufficient cattle to meet the Montevideo demand during the slack season it is permitted by decree to pay a higher price for cattle during four months of the year than that permitted the private slaughter houses. The higher prices which Frigorifico Nacional is authorized to pay during four months of the year means that the private frigorificos will be practically unable to purchase cattle during approximately six months of the year since cattle producers will either hold cattle from the market prior to the period of premium price or hasten it to the market during the latter part of that period in order to take advantage of the premium offered. Furthermore, the American private slaughter houses point out that Frigorifico Nacional's dual role as supplier of the domestic Montevideo market and as exporter of meat permits it to juggle its cost figures in such a way as to show lower costs for exports and higher costs for internal supply. This is of particular importance owing to Frigorifico Nacional's role as "*ente testigo*" mentioned above.

4. Since the prices fixed by the government for the purchase of cattle bear little relation to the internal or external prices for meat, the government has to bring these two economic factors into alignment by means of subsidy payments. The price of meat in the Montevideo market is fixed by the municipality and Frigorifico Nacional is paid as a subsidy the difference between the cost of production, including purchase of cattle, processing costs, and a reasonable margin of profit and the amount realized through the sale of the product. Similarly in the case of meat for export the amount of the subsidy is theoretically the difference between the costs of production including reasonable

profit and the amount realized through the sale of the product. The managers of American slaughter houses are careful to point out that although the subsidy determined as payable on their export production is paid directly to them it constitutes in fact compensation for the higher price in cattle which they have been obliged to pay and is therefore not a subsidy to the packinghouse but rather to the producers of cattle.

5. As will be apparent from the foregoing the determination of costs becomes under the existing system a matter of the utmost importance to the packinghouses. While a reasonable profit is theoretically included in the cost determination, cost figures submitted by the private frigorificos are reviewed by the government (attention is called again to Frigorifico Nacional's function as "*ente testigo*") and final determination of allowable cost figures is determined by the government. Until cost figures have been officially determined by the government it is impossible for the private packinghouses to determine whether their past operations have been conducted in fact at a profit or at a loss.

6. Salaries and wages paid employees and day workers are in final analysis fixed by the government.

7. Foreign exchange earned by the packers through their export operations must be converted through the Bank of the Republic at fixed rates. These rates vary with the type of meat product from 1.519 pesos per dollar in the case of chilled and frozen beef to 2.35 pesos per dollar in the case of canned meats. Foreign exchange thus bought by the Bank of the Republic is subsequently re-sold to importers at fixed rates and profits or losses on the exchange operations appear as earnings or charges against the Exchange Differential Fund. The subsidies paid to the packing houses (including Frigorifico Nacional for domestic supply) are likewise paid from this fund. The Minister of Finance has estimated that on the export of chilled and frozen beef to the UK the fund will earn 6,660,000 pesos and through the export of chilled and frozen meat to the European market 4,880,000 pesos during 1953. These profits result from the purchase of foreign exchange earned at the rate of 1.519 per dollar and the re-sale of the same at an average profit of .37 pesos per dollar. Similarly the Minister of Finance has estimated the following charges against the Exchange Differential Fund arising from meat: Subsidy of exports of chilled and frozen meat to the UK, 2,280,000 pesos; loss on exchange in exportation of canned meats owing to purchase of foreign exchange at 2.35 per dollar, 5,040,000 pesos; subsidies to Frigorifico Nacional on meat for domestic consumption, 5,500,000 pesos. From the foregoing figures it is apparent that during the coming year the Minister of Finance expects the exports of meat to earn a total of 11,240,000 for the Exchange Differential Fund while subsidies on the exportations

charged to the fund amount to 7,320,000 pesos leaving thus a net profit to the fund from exportation of meat of 3,920,000 pesos. This amount is, however, more than used up in the domestic subsidy of 5,500,000 referred to above. In other words on the basis of the Minister of Finance's estimates for 1953, earnings on the exportation of meat will not only liquidate the corresponding subsidies but will provide a substantial part on the subsidy for domestic consumption. While there are no doubt strong reasons for maintaining the present low price on meat to the consumer in the Montevideo market arising from the government's desire to control inflation and from political considerations, it is worth noting that this low price not only constitutes a drain on the Exchange Differential Fund but also encourages increasing consumption for meat internally thereby further accentuating the government's balance of payments problem.

III. *Difficulties of American Packing Houses.*

The American meat packing houses in Montevideo have not purchased or slaughtered livestock since September 17, 1952. The American plant managers for Swift and Armour maintain that this drastic action was made necessary by the unworkable restrictions imposed upon their operations by the Uruguayan Government and that the plants cannot reopen until the government undertakes a sweeping remedial program to remove the obstacles about which they complain.

According to the managers of Swift and Armour, the principal factors which have compelled them to cease the purchase and slaughter of livestock are as follows:

1. Lack of operating capital with which to finance the purchase of livestock and pay operating expenses. The lack of operating capital is attributed to three causes: (*a*) failure on the part of the government to pay the companies subsidy funds which would compensate the companies for the prices which they are required by law to pay producers for livestock purchased. On the basis of their own cost figures for the past 2 years the companies estimate that the government owes them approximately 10 million pesos. (*b*) Inability to export, owing to government restrictions, large stocks of meat now held in cold storage. (*c*) Unwillingness or inability of the parent companies to invest more capital in the present uncertain circumstances. Finally the companies have about exhausted the possibility of obtaining further bank credits locally.

2. Delay on the part of appropriate governmental authorites in fixing and approving costs of production makes it impossible for the companies to determine whether their business operations over the past two years have been conducted at a profit or at a loss. Agreement between the government authorities and the frigorificos regarding cost for 1951 and 1952 has not been reached.

3. Frigorifico Nacional's authority to pay a preferential price for cattle during part of the year makes it difficult, if not impossible, for the private companies to enter the market during approximately 6 months of the year.

In a letter to the President of the Agricultural and Livestock Committee of the NEC dated December 4 the companies stated that it would be impossible for them to purchase or slaughter any type of livestock unless an overall solution as outlined below is provided for the problems confronting the industry.

a. An exchange rate or other facilities which would make it possible to cover costs and give a reasonable profit margin.

b. Receipt by the companies of full value of the merchandise as stated in the preceding paragraph at the time of shipment.

c. Assurances that the companies will be allowed to export soon after killing.

d. Payment by the government of all amounts owed the companies and arrangements enabling the companies to export present stocks promptly, and

e. Elimination of the preferential position of Frigorifico Nacional in the purchase of livestock.

In their present stand the American firms have been joined by the operator of Frigorifico Anglo, British owned packinghouse, so that in effect this constitutes a united stand of the private foreign-owned packinghouses against the economic policies pursued by the Uruguayan Government. The managers of the American packinghouses have informed the Embassy that this united stand, which has been approved by the parent organizations of the three companies, is unique in Uruguay where the companies normally are vigorous competitors and that it is an indication of the desperate conditions in which the companies find themselves. According to the same sources the companies are pledged at present to refuse any individual offers of settlement and to stand together in demanding relief along each of the lines indicated above.

The American plant managers think that the course pursued by the Uruguayan Government is tantamount to indirect expropriation of their holdings, and unless relief is given they are reconciled to the indefinite and perhaps permanent closing of their Montevideo plants. They are also aware of the possibility that their plants may be seized by the government.

IV. *Attitude of the Uruguayan Government.*

The Uruguayans argue that the foreign packers have made large profits in the past and that present profits including interest on money owed them by the government are guaranteed—hence the packers have little to complain of. (To this the packers reply that these are "paper" profits which may be wiped out entirely when cost figures are established and that in any case their problem of obtaining operating capital is not solved by piling up "paper" profits).

The provision of full relief as requested by the packers confronts the government with major difficulties. The packers themselves have expressed the belief that the government does not have available and cannot raise at the moment the full amounts of money owed them. Furthermore, as long as Frigorifico Nacional is by law the sole supplier of the Montevideo market, abolition of its preferential position in the purchase of cattle during short season would risk meat shortages in Montevideo with resulting public dissatisfaction and unrest. The three foreign packers are being paid 4.3 million pesos of the total amount claimed by them (pesos 15 million) and draft legislation has been approved by the NEC for submission to the Uruguayan Congress which would permit the use of general government revenues rather than exchange earning fund (which is now exhausted) in paying the remainder. (Subsidy payments to Frigorifico Nacional have been made in this way.) There is the additional factor that the packers insist (to this date at least) that payment of arrears would remove only one of their difficulties and that the government must go much further in affording relief before operations are resumed.

The attitude of the Uruguayan Government toward the foreign-owned packinghouses is disturbing because after making due allowance for the factors listed in the preceding paragraph, including some recent improvement in the outlook, the Embassy has the clear impression that there exists within the government little sympathy for the foreign packinghouses and that on the contrary there is an underlying hostility toward them and a clear bias for Frigorifico Nacional. This is evidenced not only in the slowness of the government in advancing toward a solution of the problems confronting the private packers but also in the difficulties which the private packers appear to have had in obtaining serious consideration of their problems by the government, in the general trend of comments made publicly by high officials of the government including members of the NEC. Some of the comments of these officials have been transmitted to the Department in despatch No. 478 of December 24, 1952.[3] The underlying tone of such comments has been to place emphasis on the harm to the national economy resulting from the suspension of operations by the private foreign owned packinghouses and to couple this with thinly veiled threats that unless the companies resume operations their export quotas may be reduced and their principal competitor, Frigorifico Nacional, may be given expanded facilities and put on a 24-hour a day basis in order that it might handle the entire slaughter. Notably absent in such comment and statements has been recognition of the claim of Swift, Armour and Anglo that closing of their plants is involuntary and that they simply cannot operate the plants in the circumstances in which they find themselves.

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[3] Not printed.

V. *Conclusion.*

The American packers have generally been inclined to cry wolf whenever their traditional position in Uruguay appears threatened in any way. It has been, of course, impossible for the Embassy to determine conclusively the accuracy of some of their statements and charges and it is suspected that some times in the past they have been prone to exaggerate the magnitude of their difficulties. However, in the present case all of the evidence available to the Embassy indicates that their plight is, as stated by them, indeed desperate. The Embassy has no evidence to show that the prolonged inactivity of the government in the face of the situation of the companies arises from any present or conscious intent to force the companies into a position where expropriation in one form or another will follow. The Embassy believes that such is not the present intent of the government and that the delays in proposing any solution of their difficulties arise rather from the difficulties of the government in providing remedy and the general inertia of Uruguayan Government proceedings. However, the Embassy does not rule out the possibility that certain individuals within the government and in Frigorifico Nacional may view with complacency continuation of the present situation as paving the way to liquidation of the foreign packers and absorption of their share of the industries by Frigorifico Nacional. In short, while we are inclined to expect that the government will in due course propose some sort of compromise (which the companies may or may not accept), we see in the present situation indications that the private foreign packers will sooner or later lose their unequal struggle with Frigorifico Nacional and be forced to liquidate their enterprises in this country.

WALLACE W. STUART

411.3331/4–2753: Telegram

The Secretary of State to the Embassy in Uruguay[1]

CONFIDENTIAL WASHINGTON, April 27, 1953—7 p. m.

191. For Ambassador from Mann. Executive Depts testifying near future before Congressional Committees on customs simplification and extension trade agreements program. President has asked for simple one year extension trade agreements program. Simpson Bill now pending Congressional action would, however, while continuing trade

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[1] Drafted by Acting Deputy Assistant Secretary of State for Economic Affairs Leddy and Mr. Cale; approved for transmission by Mr. Leddy. Cleared in draft by Assistant Secretary of State for Economic Affairs Linder, Deputy Assistant Secretary Mann, Director of the Office of South American Affairs Atwood, and Assistant Secretary of the Treasury Rose.

agreements act, impose numerous restrictions. It also includes provision looking toward application countervailing duties in multiple rate cases.

Considered opinion here that in absence definitive action on tops by Uruguay or US, it most likely that Congress will enact mandatory countervailing duties provision covering wool tops and many other products. Also, chances of obtaining Congressional approval provision requiring showing domestic injury as condition imposition countervailing duties which Executive is recommending will be greatly impaired.

Accordingly, unless other action taken by Uruguay as suggested below, Sec Treas plans announce on May 2 existence of bounty connection export Uruguayan wool tops and application of appropriate countervailing duty.

You instructed discuss foregoing urgently with Yriart with view ascertaining whether Uruguayan govt prepared act prior to May 2 to reduce rate on tops to rate applicable raw wool and to agree with us to keep it there. Such agreement would probably forestall imposition countervailing duties on other Uruguayan products as well as wool tops. You should make following points:

(1) Dept appreciates suggested course would raise serious problems for Uruguay.

(2) Dept believes, however, that action by US would have considerably worse effects. Should Treasury proceed take action on wool tops under existing legislation principles might be involved which could have effect of extending countervailing duties to other Uruguayan products. Mandatory provision placed in law on Congressional initiative likely have even wider application.

(3) Failure on part Uruguay or ourselves act on tops also likely jeopardize customs simplification bill and interfere with efforts obtain simple extension trade agreements program.

(4) In order for advantages be obtained Uruguayan action, as contrasted disadvantages US action, necessary Uruguay act not later than May 1.

Please telegraph results conversation.[2]

DULLES

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[2] In telegram 305, from Montevideo, dated Apr. 30, 1953, Ambassador Roddan stated in part the following: "Unless last minute change, Pittaluga will send lengthy cable to Secretary State stating impossible for Uruguay to change present tops rate." He further stated that "Embassy believes Uruguayan position is primarily based on economic factors. However, slight undercurrent of martyrdom idea being 'little Uruguay' is victim to ensure passage reciprocal trade act." (411.3331/4–3053)

411.333/5-253

Memorandum of Conversation, by the Director of the Office of Regional American Affairs (Cale)

CONFIDENTIAL [WASHINGTON,] May 2, 1953

Subject: Proposed Countervailing Duty Action on Wool Tops

Participants: The Secretary
H—Mr. Morton
E—Mr. Linder
E—Mr. Leddy
ARA—Mr. Mann
AR—Mr. Cale

Mr. Mann said that he had been requested by the Uruguayan Embassy to bring to the Secretary's attention the note[1] addressed to the Secretary by the Uruguayan Foreign Minister on the above subject. Mr. Mann provided the Secretary with an English translation of the note (see attachment), which the Secretary read.

Mr. Mann pointed out that the Uruguayan Government took the position that the manufacture of wool tops is a natural industry for Uruguay since tops are made out of Uruguayan raw material. He also pointed out that the Uruguayans look upon the manufacture of wool tops as one way which they can help diversify their economy and raise the general level of living in Uruguay. Mr. Mann said that the Treasury Department, on the other hand, is of the opinion, especially in view of complaints from our wool interests, that the Uruguayan Government is subsidizing the exportation of wool tops and that the countervailing duty provision of the Tariff Act of 1930 should be applied. If this is done, our action will certainly be resented in Uruguay to an extent which it is difficult to predict with accuracy. On the other hand, the Uruguayans have not been cooperative in helping us find a mutually satisfactory formula.

Mr. Morton called attention to the need to go through with the action on wool tops as a means to improving the chances of obtaining Congressional approval of a one-year extension of the Trade Agreements Act. He said that the White House hopes that it may be possible to persuade Congressman Simpson[2] to withdraw substantially all the amendments provided for in his bill, but that he will insist that countervailing duties be levied on Uruguayan wool tops, even if he agrees not to press for the amendments.

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[1] A translation of the referenced note, dated Apr. 30, 1953, is attached to the source text, but not printed.

[2] Richard M. Simpson (R.–Pa.)

Mr. Linder reviewed for the Secretary the discussions which we have had with Treasury Department representatives regarding the matter. He then said that he believed it is likely, in the absence of action on wool tops by the Executive, that Congress may take action which will make it mandatory that the Executive levy countervailing duties on a much larger scale. He also stated that he thought the Treasury representatives would be in an impossible position in testifying on the Customs Simplication Bill in the absence of action on wool tops.

The Secretary asked that a reply be prepared to the note from the Uruguayan Foreign Minister expressing the Secretary's regret that he was not able to accede to the Minister's request. He also asked that a letter to Senator Millikin[3] be drafted for his signature enclosing a copy of the Foreign Minister's note as an indication of the difficulties raised in our foreign relations by action such as that contemplated on wool tops. The Secretary pointed out that Senator Millikin had requested that he consent to the proposed action by Treasury on wool tops.[4]

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[3] Eugene D. Millikin (R.–Colo.)

[4] On May 6, 1953, the Treasury Department announced that it was establishing countervailing duties on imports of wool tops from Uruguay. For text of the Treasury Department's press release, see *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1953* (Washington, 1954), p. 227.

411.3331/5–553: Telegram

The Secretary of State to the Embassy in Uruguay[1]

SECRET PRIORITY WASHINGTON, May 8, 1953—12:52 p. m.

200. Uruguayan Embassy has delivered long memorandum[2] (urtel 311).[3] We hope our reply now being drafted will help dispel misunderstandings.

Suggest meanwhile you emphasize verbally these points to Uruguayans.

1. Countervailing duty fixed at 18% invoice value based on extent bounty found by Treasury although complaints received alleged bounty totaled 49%.
2. Treasury action open to review if Uruguay takes action which eliminates basis for finding bounty exists and we are willing continue consultation effort find mutually satisfactory solution.
3. Uruguay informed more than year ago and many times since difficult situation caused by stimulation export wool tops U.S. plus law Congress making countervailing duty mandatory where bounty existed.

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[1] Drafted by Deputy Assistant Secretary Mann and signed by Mr. Atwood.

[2] Not printed.

[3] The referenced telegram, dated May 5, 1953, is not printed (411.3331/5–553).

In repeated discussions problem since then Uruguayans have not proposed any solution.

4. Our tentative figures show general imports of Uruguayan wool tops increased from about 3% U.S. consumption 1951 to 9% in 1952. Total imports from all sources about 11% consumption. However, relationship of imports to U.S. consumption is not basis for conclusion bounty exists.

5. There is no intention discriminate against Uruguay. Rather it has been found exports wool tops from Uruguay to U.S. in effect receive benefit of bounty. So far bounties not found exist on wool tops imports from any other country supply significant amounts U.S. market. If any other countries are found be granting bounties on their exports wool tops to U.S. similar countervailing duties will be applied.

6. Question MSA legislation in our opinion unrelated this problem.

7. Right to levy countervailing duty in event subsidy internationally recognized. Treasury action cannot be interpreted as U.S. return to high tariff policy since action required by long existent law. President Eisenhower favors expanded world trade balance at high levels and administration will conduct exhaustive studies to determine future trade policies[4] for attainment this objective.

Without minimizing importance countervailing duty action to Uruguayan economy we should attempt discourage tendency (1) portray this as political rather than economic measure (2) exaggerate its importance (3) assume pessimistic attitude possibility satisfactory future resolution problem.

Points mentioned above may be used at your discretion for statement urtel 313.[5]

DULLES

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[4] For documentation relating to U.S. trade and commercial policy, see volume I.

[5] The referenced telegram, dated May 7, 1953, is not printed (411.3331/5–753)

Cabot files, lot 56 D 13, "Uruguay"

The Ambassador in Uruguay (Roddan) to the Assistant Secretary of State for Inter-American Affairs (Cabot)

[Extract]

CONFIDENTIAL MONTEVIDEO, May 13, 1953.

MY DEAR MR. CABOT: This is a belated note of greeting and good wishes. Now that Tom Mann is leaving for the field, and in view of the approaching visit of Dr. Eisenhower,[1] I believe this may be an opportune time to give you a brief résumé of the Uruguayan situation.

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[1] Reference is to the factfinding mission to the countries of South America undertaken by Dr. Milton Eisenhower between June 23 and July 29, 1953, at the request of President Eisenhower. Regarding Dr. Eisenhower's trip, see the editorial note, p. 196.

The wool tops controversy is still smouldering although with diminishing heat. The Batlle-Berres faction is really bitter because it has long had political, and perhaps economic, ties to the tops industry. The Herreristas keep up the clamor for reasons of political expediency. Their interests are allied with the greasy wool producers and they never did like the tops industry. There is a measure of public resentment, without a real understanding of the issue, because many people believe the United States took an unfriendly action towards Uruguay. However, underneath there is a realization by moderates that the United States had justification for its action and hence the resentment will probably die away. Ambassador Mora now plans to leave for Washington this week-end and he should be able to give you a worthwhile view of the situation. He was very helpful here because of his restraining influence.

There is one adverse consequence of the wool tops ban which will linger on—that is, a worsening of the Uruguayan dollar position which is already bad. Exports to the United States constitute the principal source of dollars, amounting last year to $50,000,000 including $15,000,000 from tops, but this sum was more than offset by the dollar value of imports from there. In addition, Uruguay carries on trade in dollars with other countries at a net loss. Provisional estimates of trade with the United States for the first quarter of 1953 show an improvement of the Uruguayan position but at the expense of diminished imports from the United States. While the subject is too involved for treatment in a letter, it is certain that the loss of tops dollars will be fairly serious.

Overshadowing the economic factors, there is always the sensitive question of Uruguayan relations with Argentina. The Department was undoubtedly right in failing to mention Argentina in connection with tops in view of the explosive situation across the river, but this failure caused uneasiness here. The Peronista pressure against Uruguay continues, and it will probably continue even if the gentleman carries out his agreement to send an Ambassador here. Our Embassy is convinced that Perón did what he could to undermine this government during the general strike last September and the Uruguayan government is always apprehensive that he may try it again.

The Uruguayans, as we advised the Department, dislike the idea of Dr. Eisenhower coming here on a week-end and they will probably grumble again when they learn that he is visiting Argentina first. I think we can work out an acceptable schedule of dates without complicating the schedule too much and the business of visiting Argentina first should not be too important.

It is highly probable that on his visit here, the Uruguayans will seek some assurances from Dr. Eisenhower vis-à-vis Argentina and it may be well to begin thinking about it now. I appreciate that on a good will visit to eleven Latin American countries, Dr. Eisenhower can hardly single out Uruguay for preferential treatment. Yet, Uruguay has been constant in its friendship to the United States and steadfast in its devotion to democratic principles and I think it deserves a degree of consideration a little above the ordinary. (Perhaps each Ambassador thinks the same about his post.) Quite frankly, just what we can do to reassure Uruguay or possibly to help overcome its economic difficulties, I haven't been able to figure out.

The press has reported that you may come along with Dr. Eisenhower and if so we shall be happy to do what we can to make your visit pleasant and profitable.

With best wishes.

Sincerely yours,

EDWARD L. RODDAN

811.05135/8–2653

Memorandum of Conversation, by the Officer in Charge of River Plate Affairs (Dearborn)

CONFIDENTIAL [WASHINGTON,] August 26, 1953.

Subject: Problems of International Packers in Argentina and Uruguay

Participants: Mr. Thomas Taylor, International Packers
Mr. Guy Whitney, International Packers
Assistant Secretary Cabot
Mr. Cottrell (OSA)
Mr. Dearborn (OSA)

Mr. Thomas Taylor and Mr. Guy Whitney of International Packers called on Mr. Cabot this afternoon to discuss the problems of their company in Argentina and Uruguay. Mr. Whitney said he had been on leave in the United States since last May and planned to be back in Buenos Aires August 31.

Mr. Taylor asked about US-Argentine relations since the visit of Dr. Milton Eisenhower to Buenos Aires. Mr. Cabot replied that they had improved and that certain concrete steps had been taken by the Peron Government which were favorable to us. He remarked however that he wished confidentially to say that while he hoped we could take advantage of Peron's apparently friendly disposition to work toward basic improvements, in view of Peron's past performance we could not be certain that we were permanently heading for such improvement. For the time being we wished to encourage Peron in his present attitude and we did not wish to take any steps that would induce him to revert to his anti-US position. Mr. Whitney said that this view seemed to him a very good one.

Mr. Cabot went on to say that since we were still unsure of our ground he questioned whether we should push Peron too hard. For this reason he thought it might not be a propitious time for our Embassy to make representations on behalf of International Packers. He made it clear that the Department wished to do all it could to assist the packers but that timing would be most important. Mr. Taylor agreed with this point but said that the situation was now so serious that the packers did not feel they had much time left. He amplified his remark by describing something of their difficulties. He said that his firm had been through some difficult times in Argentina during the past six years but that it had always been able to reach some agreement with the Government through friendly negotiations. He said, however, that at no time had the situation been as serious as at present and that in fact the company could not continue much longer under present circumstances. Their losses had never reached the high figure of $60,000,000 pesos which was where they were now. The situation was particularly discouraging because the packers were now unable to see the necessary high level officials who were in a position to help them. Furthermore about two weeks ago all the accountants on the Meat Board had been dismissed on the charge that they had given information to the packers. The packers' relations with the government and their general situation was at a dead center and it was most important to make progress toward a solution of their problems. Mr. Cabot replied that the Department would send a telegram to Ambassador Nufer advising him that Mr. Whitney would call on the Ambassador early next week and requesting the Ambassador to assist the packers in any way he thought would be helpful. He explained that Ambassador Nufer would be the best judge of what could be done at any given moment. Mr. Taylor and Mr. Whitney were obviously pleased by Mr. Cabot's offer to send this telegram and said they would appreciate it.

Mr. Taylor then brought up his firm's difficulties in Uruguay. He said he and Mr. Whitney had just had lunch with Ambassador Mora who had always been helpful. The Ambassador had assisted them considerably last April in obtaining action from the Uruguayan Government toward the payment of its debt to the packers. However, after Ambassador Mora left Uruguay to return to the US the company's relations with the Government had deteriorated. They had operated in Uruguay for many years and their relations with local officials had always been good but during the past year these relations had deteriorated greatly. Mr. Whitney was highly critical of the present Uruguayan Government and said that under it the country was being ruined through mismanagement and a program of subsidies which the economy could not stand. Mr. Taylor stated that the US packers were particularly disturbed by a recent decree which failed to grant them their traditional export quota. This he said was apparently retaliation by the NEC against the plants for having closed down. Mr. Taylor felt very strongly on this question of the quota and said that the US packers had a *right* to expect their traditional proportion of exports. In this connection he stated that the Castro interests had been *assigned* the amount taken from the US packers.

Mr. Taylor remarked confidentially that he was informed that the Eximbank had received an application for a loan to finance canning equipment for the Castro interests and that Uruguay had an application for a loan before the IBRD at the present time. He thought the treatment of the US packers should be considered in connection with the position taken by the US on these loans. He was particularly emphatic with regard to the canning equipment application because he said International Packers already had very large facilities of this type in Uruguay and that the country had no need for more than was already there.

Mr. Cabot said he was sorry to hear that things were going so badly in Uruguay generally and with the US packers in particular. He asked what our Embassy had been doing to help. Mr. Taylor replied that he has just received a telegram from his people in Montevideo to the effect that the Embassy was reluctant to take up the matter of the quota with the Government since the US packers had "voluntarily" closed down from January to May. Mr. Taylor took vigorous exception to the Embassy's use of the word "voluntarily" and pointed out that that was hardly the word since the plants had closed because they could not afford to keep open. He said they had borrowed all the money they could borrow in Uruguay to operate as long as they had. With reference to the application for canning equipment before the Eximbank Mr. Cabot asked Mr. Dearborn to look into the matter and said that unless there were aspects to the case that had not yet appeared he thought we should prevent such a loan from being authorized since it would run counter to the very purpose of the Bank's existence. He suggested that Mr. Dearborn also look into the applications that the Uruguayans might have before the IBRD to determine what our position should be with respect to them in the light of Uruguay's treatment of the packers.

Mr. Cabot said he thought the Uruguayan Government should be directing its efforts toward growing more cattle and sheep rather than toward increased industrialization of the cattle industry. Messrs. Taylor and Whitney were in full agreement. Mr. Cabot also expressed the view during the conversation that in his opinion American business abroad had a duty to carry on a public relations program designed to explain to local populations how the latter were benefiting from US investments. He pointed out that many US firms abroad were suffering today because of their failure to pay more attention to public relations. He made clear that he was not criticising International Packers but was stressing the importance of the subject in general. Both Mr. Taylor and

Mr. Whitney concurred and said that they were endeavoring to work out a plan which would improve their relations with the Uruguayan Government and public. Mr. Cabot suggested that the problem was one of importance to *all US business* abroad and he thought something might be worked out through local American Chambers of Commerce.

733.5 MSP/8–1153: Instruction

The Secretary of State to the Embassy in Uruguay[1]

SECRET WASHINGTON, September 2, 1953.

Subject: Failure of Uruguay to Initial Military Plan

A–19. Embassy despatch No. 98 of August 11, 1953[2] setting forth the situation which appears to be responsible for the failure of Uruguayan Defense officials to initial the bilateral Military Plan, despite ratification of the MSA Agreement by Uruguay, has been reviewed in the Department with great interest. From time to time since Uruguayan ratification was completed, consideration has been given to the question of whether some special effort should be made, perhaps along the lines of the last paragraph of the reference despatch, to urge Uruguayan officals to take the step essential to the initiation of deliveries of equipment to Uruguay under the Agreement, especially since initialling of the Military Plan immediately after Uruguayan ratification of the Agreement was a commitment explicitly agreed upon as a condition to our approval of the unique procedure which was followed in this case. It was decided, however, that it would be difficult for such action on our part to be taken without creating the unfortunate impression that fulfillment of the program was something more desired by us than it was in the interest of Uruguay itself.

However, it may soon become necessary for planning purposes and administrative reasons, to reach a definitive decision on implementation of the program for transfer of equipment to Uruguay, and it will be essential to know whether Uruguay intends to meet the indispensable condition prerequisite to participation in the program. It is therefore suggested that you take an early opportunity to discuss this matter with Domínguez Cámpora, making it plain to him that it is essential for the reasons given above that those responsible for implementing the program in this Government know whether Uruguay actually wishes to receive our assistance in the manner contemplated when the negotiations were carried on. While we are sympathetic with regard to any internal difficulties this may pose, it is our desire that Uruguay understand fully the possibility that extended delay in initialling the Plan may make it impossible for this significant strengthening of Uruguay's defense capability to be carried out.

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[1] Drafted by Deputy Director of the Office of Regional American Affairs Jamison and Mr. Dearborn; approved by Deputy Assistant Secretary of State for Inter-American Affairs Woodward.

[2] Not printed (733.5 MSP/8–1153).

If Domínguez introduces extraneous issues into the conversation, such as wool tops, he should be reminded of the irrelevance of these issues in the light of past history. At his own request, explained entirely on the basis of the special aspects of the Uruguayan constitutional system, the United States waived the practice insisted upon in other negotiations of initialling the Plan immediately after the signing of the Agreement. This was accepted only because Domínguez assured us that the Plan would be initialled immediately following ratification.

With reference to the fourth paragraph of the Embassy's despatch No. 98 of August 11, the Department believes that the Embassy should make no further effort to discourage Uruguayan officials from showing the Plan to Herrerista members of the Consejo, since this is so strictly an internal Uruguayan matter that suggestions from us pertaining thereto might be counterproductive.

DULLES

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Conversation, by the Chief of Protocol (Simmons)

RESTRICTED [WASHINGTON,] October 27, 1953.

Subject: Call on the President of Dr. Alberto Domínguez Cámpora

Participants: The President
Dr. Alberto Domínguez Cámpora
The Ambassador of Uruguay
John F. Simmons, Chief of Protocol

His Excellency Dr. Alberto Dominguez Cámpora, Chairman of the Uruguayan Delegation to the United Nations General Assembly, called on the President by appointment at 11:15 a.m. today.

The main theme of Dr. Domínguez Cámpora's conversation with the President was the difficulty constantly being experienced by Uruguay in relation to the intrigues of the neighboring country of Argentina which seemed to be constantly revealing its hand as wishing a kind of "hegemony" over Uruguay.

He said that the Uruguayan Government and people were constantly being exposed to this type of intrigue, usually taking the form of infiltrations of individual Argentine agents, in large measure among the junior officers of the Uruguayan Army, as well as in the universities and in the political life of the country.

He said that this question was so serious that he felt compelled to bring it personally to the President's attention. He stressed the point that, the moment any apparent deterioration came to light in our relations with Uruguay, such as in our recent commercial disputes, this fact was seized upon and exploited by Argentina to create further difficulties. In referring to Argentina, he usually spoke of the "Perón Government".

The President assured him that we have the highest respect, admiration and friendship for Uruguay; that there are no real differences at all between our two countries; that divergent viewpoints are always apt to occur in international relations and particularly in commercial matters.

Dr. Domínguez Cámpora expressed profound satisfaction at hearing these reassuring words and said that the Uruguayan Government and people always have had, and will continue to have, the greatest admiration and respect for the United States and its people.

JOHN F. SIMMONS

611.33/10-2653

The Assistant Secretary of State for Inter-American Affairs (Cabot) to the Chargé in Uruguay (Trueblood)[1]

CONFIDENTIAL [WASHINGTON,] November 2, 1953.

DEAR EDDIE: I am very grateful to you for your letter of October 26[2] and am naturally much distressed at the violence of the Uruguayan reaction to our *rapprochement* with Peron. I frankly find myself a little puzzled at the tenor of this reaction.

I should think that the Uruguayans would realize that, since we have signed solemn commitments of nonintervention, we should live up to them. Even if we had not made any such commitment, it strikes me that it would be inherently poor diplomacy to cultivate bad relations with every government we didn't altogether like. If we were to seek quarrels rather than conciliation, we should have to complain of the dictatorships in several other Latin American republics; we should have to complain of graft in practically every one of them; we should have to complain of mismanagement and inefficiency in others; we should have to complain at the treatment of American companies in a number of countries, including Uruguay; and we should have to take into account all sorts of unfriendly sentiments expressed from time to time by officials or officially-inspired media of publicity in yet others. Considering that we maintain cordial relations with Tito, Franco, Chiang, Syngman Rhee and an assorted group of heads of government whose policies are not altogether to our liking, it frankly seems to me that this is a very shortsighted attitude to take. In the present state of world affairs we simply cannot afford the luxury of quarreling unless we have to.

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[1] Drafted by Mr. Cabot.

[2] Not printed.

The fact is that Peron has shown his intentions to improve relations with us by a whole series of actions. I need merely cite the cessation of the vicious Argentine propaganda against us throughout the Hemisphere and the vastly improved position of American news agencies and periodicals to show the important advantages we have secured by a conciliatory policy.

With regard to Uruguay's position vis-à-vis Argentina, one of the reasons (a minor rather than a major one, to be perfectly truthful) that we sought to improve our relations with Argentina was the thought that it would help Uruguay in the jam in which she has gotten herself in her relations with Argentina. The Uruguayans should appreciate that these matters will not be settled in a day and that they would be well advised to be conciliatory rather than stiff necked. I do feel, however, that relations between Argentina and Uruguay are likely to improve as a result of the improvement in relations between Argentina and the United States.

With regard to our economic policies, I am frankly at a loss to understand the Uruguayan position. Since I have not studied our trade agreement and its applicability to the particular situations we face today, I do not know which would be the more hurt if the Uruguayans should denounce it. However, my impression is that the Uruguayans have blandly ignored it whenever it suited their convenience. We have, of course, imposed countervailing duties on their wool tops and I think you know how much we in this Department regretted that decision. I hope that the reduction in this duty of which Mora will be informed today will somewhat assuage their wrath. They seem, however, to overlook the fact that, due to their monkeying with the exchange rate, wool tops were really muscling into our domestic market and that they did nothing effective about it when we warned them that they were heading for trouble. I do not know whether we are equally misinformed in thinking that only a few Uruguayan firms were directly affected by this order. I would say that we had an equal right to feel aggrieved regarding such Uruguayan moves as the UN resolution they sponsored which tried to pull the rug from under our foreign investments or the way in which they have hamstrung our packing companies in Uruguay.

I am very seriously concerned as to what might happen to our relations with Uruguay if we increase the duty on wool. As you must be aware, we have been doing everything we can in the Department to fight this possibility, but we are up against very serious opposition. If the increase should go through I would understand Uruguayan resentment, but at the moment I think they are being more emotional than reasonable in their attitude toward the United States. However, they're not the only ones in the world.

You were, of course, right in reporting these things even though they seem unreasonable and make unpleasant reading. You might give my personal greetings to Juan Yriart and tell him that so far as I am aware I haven't yet started to grow horns.

With every good wish,

Very sincerely yours, JOHN M. CABOT

394.31/12-953

The Secretary of Agriculture (Benson) to the President

WASHINGTON, December 9, 1953.

DEAR MR. PRESIDENT: In 1949 the United States negotiated tariff concessions with Uruguay at Annecy under the General Agreement on Tariffs and Trade[1] with respect to United States duties on canned beef, pickled and cured beef and veal, and meat extract.

The Government of Uruguay delayed entering the agreement until the middle of the past month. During the intervening 4 years the deadline for signing the agreement was periodically extended for Uruguay. It appears that the reason Uruguay finally signed was that the GATT will permit them to increase their duties and make their import restrictions on United States' products more severe than permitted under our present bilateral reciprocal trade agreement.

Since the agreement was negotiated in 1949, we have had a marked change in our domestic beef situation. Production has expanded to an all time high level, and farm prices have dropped to extremely low levels. We are now spending vast sums in an attempt to bolster sagging cattle prices. In view of this situation, the lowering of our import duties on beef at this time would subject the Administration to severe criticism.

On December 1, we wrote[2] to the Secretary of State and called to his attention the need for action to remove these beef items from the duty reduction list which we understood you were to proclaim in the next several days. However, in a reply dated December 4,[3] the Acting Secretary of State, the Honorable Walter B. Smith, indicated that since Uruguayan action has been completed, there would appear to be no legal way in which the United States could refuse to carry out its commitments. The letter also stated that failure to extend the concessions to Uruguay as well as to other parties to GATT would be a breach of faith.

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[1] For text of the referenced agreement, concluded at Geneva, Oct. 30, 1947, and entered into force for the United States, Jan. 1, 1948, see 61 Stat. (pts. 5 and 6). For information concerning the accession of Uruguay to the agreement, see the editorial note, *Foreign Relations*, 1949, vol. I, p. 668.

[2] The letter referred to here is not printed (394.31/12-153).

[3] Not printed (394.31/12-453).

We are firmly convinced that a way must be found to either withdraw the beef items from your proclamation or delay its issuance indefinitely. Unless this is done, the granting of concessions at this time would, in the public mind, tend to nullify in large part our efforts to strengthen the cattle market.

We have just learned that the Government of Uruguay has indicated informally that if notice is received from the United States prior to December 16, and if we will specify the future date on which the schedules would apply, Uruguay would be prepared to delay application of the GATT schedules. This suggestion would meet our problem if the postponement were tied to such time as the present distress situation in the U.S. cattle market is terminated.

I would be glad to have the opportunity to discuss this matter with you and the Secretary of State.[4]

Sincerely yours, E[ZRA] T. BENSON

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[4] The source text contains the following handwritten notation initialed by President Eisenhower: "Gov. Adams. Try to get Dulles & Benson together."

394.31/12-1053

Memorandum by the Legal Adviser (Phleger) to the Under Secretary of State (Smith)

[WASHINGTON,] December 10, 1953.

Subject: Proclamation Carrying Out the Annecy Protocol of Terms of Accession to the General Agreement on Tariffs and Trade with Respect to Uruguay

At the conference attended by you, Assistant Secretary Cabot, Deputy Assistant Secretary Kalijarvi, Mr. John Leddy, Director, Office of Economic Defense and Trade Policy, Mr. Walter Hollis, L/E, and myself, after discussion of Secretary of Agriculture Benson's letter to the President on this subject, dated December 9, 1953,[1] all present agreed on the following program:

(1) That the United States concessions should not be proclaimed on December 16, 1953 pending discussions with Uruguay of the possibility of modifying the commitments that we have undertaken.

(2) That Assistant Secretary Cabot and Deputy Assistant Secretary Kalijarvi would initiate discussions at once with the Department of Agriculture looking to an agreement as to what representations could be made to Uruguay that would lead to securing agreement by it that the tariff concessions on the meat items would be dropped from the

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[1] *Supra.*

schedule to be proclaimed, it being recognized that to secure the Uruguayans' cooperation they should receive some assurances that if they met the requirements of the United States in this matter that no action would be instituted by the Department of Agriculture under Section 22 of the Agricultural Adjustment Act[2] with respect to beef.

(3) After this matter has been discussed as above, Assistant Secretary Cabot is to have discussions with the Uruguayans for the purpose of developing some satisfactory mutual arrangement which will have the effect of modifying the treatment of the meat items in the proclamation. This may well involve concessions to Uruguay which will be reported and discussed.

11 December 1953

Deputy Assistant Secretary Kalijarvi and Assistant Secretary Cabot had a conference this morning with Under Secretary of Agriculture True Morse on the above subject. The latter is to consider the matter with other officials in Agriculture to be followed by further discussion with the first-named.

HERMAN PHLEGER

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[2] Of 1933, as amended.

411.333/12-1153

Memorandum of Conversation, by the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi)

CONFIDENTIAL [WASHINGTON,] December 11, 1953.

Subject: Proposed Duty Reduction on Beef Imports

Participants: Mr. Morse—Under Secretary of Agriculture
Mr. Cabot—ARA
Mr. Kalijarvi—E

Mr. Cabot and Mr. Kalijarvi told Mr. Morse of the meeting with General Smith on December 10,[1] and made clear the understanding and sympathy with which the Department of State regarded the problem of the Department of Agriculture with respect to the Uruguayan beef situation.

Mr. Cabot voiced concern that the Uruguayans be handled in this matter in such a way as not to produce unfavorable repercussions in the forthcoming Caracas Conference.[2] He stated that favorable Uruguayan consideration of the difficulty in which the United States now finds itself with respect to the contemplated proclamation on December 16 was colored by their anger over the countervailing duties that had been imposed by the United States on Uruguayan wool tops.

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[1] See the memorandum, *supra*.

[2] Reference is to the Tenth Inter-American Conference, held in Caracas, Mar. 1-28, 1954; for documentation on the conference, see pp. 264 ff.

Mr. Morse stated that the amounts of beef involved were relatively small, but the problem was great in terms of its political significance. Mr. Kalijarvi pointed out that it was the feeling of the Department of State that the United States was morally and legally obligated to issue the proclamation on December 16, but that there were considerations of national interest that perhaps transcended the moral and legal factors. In the light of this, the following possibilities were discussed.

1. Withholding of the proclamation pending further study, such withholding to be done with the concurrence of the Uruguayans. (In this connection, Mr. Morse suggested the possibility of making the proclamation on December 16 as required, but omitting therefrom the meat items. He was informed that it was the view of the Department of State that such a proclamation would merely highlight the items in controversy and that it would be preferable to withhold the proclamation on the entire list.)
2. Concessions on wool or wool tops or some other item which might be used in negotiation with the Uruguayans on this matter.

It was emphasized that the Department of Agriculture should undertake not to institute any Section 22 proceedings[3] with respect to beef if an arrangement were entered into with the Uruguayans along the lines indicated above.

Mr. Cabot stated he did not believe it wise to enter into discussions with the Uruguayans until the Department of Agriculture had canvassed what it was prepared to concede on items of interest to Uruguay.

The meeting closed with the undertaking by Mr. Morse to take the problem back to the Department of Agriculture for further consideration along the lines discussed.

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[3] Reference is to the provision in the Agricultural Adjustment Act of 1933, providing that the President may impose import fees or quotas in order to prevent imports from materially interfering with the domestic agricultural program.

394.31/12-1453

The Under Secretary of Agriculture (Morse) to the Under Secretary of State (Smith)

WASHINGTON, December 14, 1953.

DEAR GENERAL SMITH: This is in response to your request for our comments regarding the feasibility of offering new concession items to Uruguay as some compensation to them for the United States decision to delay application of the duty concession on various beef items negotiated in 1949.

We have reviewed our situation with respect to these points. We can agree to your informing the Uruguayans that we would not object to a prompt withdrawal of the countervailing duties on wool tops imported from Uruguay as soon as the Treasury Department has found that subsidies are no longer being paid on such imports.

Also, we believe you should emphasize to the Government of Uruguay that action at this time to put the duty concessions on beef into effect would not be in their long time interest. First, Uruguay is not the major supplier[1] of these items to the United States. Therefore, the benefit would have accrued primarily to the other supplying countries. Second, the establishment of lower rates would have increased pressure for restrictive action under import control legislation.

Sincerely yours, TRUE D. MORSE

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[1] The "principal supplier" rule was basic to the U.S. concept of multilateral tariff reduction within the framework of GATT.

Editorial Note

On December 24, 1953, President Eisenhower issued a proclamation making effective as of December 16 certain tariff concessions initially negotiated with Uruguay in 1949 within the framework of the General Agreement on Tariffs and Trade, excluding the duty reductions provided for in the 1949 Agreement with respect to canned beef, pickled and cured beef and veal, and meat extract. For text of the proclamation and related press release of the same date, see Department of State *Bulletin*, January 11, 1954 pages 53–55.

733.5 MSP/1–1954

The Ambassador in Uruguay (McIntosh) to the Department of State

SECRET MONTEVIDEO, January 19, 1954.
No. 328

Subject: Report by the U.S. Ambassador to Uruguay to the Director for Mutual Security on the Operation and Status of Programs Under the Mutual Security Act of 1951. Period Covered: July 1 to December 30, 1953.

The bilateral military assistance pact between Uruguay and the United States became fully effective on October 14, 1953, with the initialling by representatives of each government of the military plan.[1] Thereafter, pursuant to the Department's instructions, conversations were begun by the Service Attachés with the Minister of National Defense[2] with a view to encouraging the Uruguayan Government to make available the amounts of local currency needed to establish a MAAG. Unfortunately, the Minister took the position that due to the fact that Uruguay is entering a pre-election period with national elections scheduled for November 1954, it would be imprudent for the Government here to take any steps which might make the pact a campaign issue. The Minister recalled the bitter fight which the government had had to obtain congressional ratification of the pact and expressed the view that the setting up of a military advisory group at this time would be certain to attract attention and thus revive the whole issue. The Minister and the Inspector General of the Army suggested the possibility of an *ad hoc* operation of the agreement (involving no expenditure of funds by Uruguay) whereby either existing U.S. service personnel in Uruguay would be utilized, or if additional personnel were required, they should be incorporated in the Attache set-up rather than as part of an advisory group.

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[1] Concurrent with the negotiations for the Military Assistance Agreement between the United States and Uruguay, representatives of the two countries conducted negotiations for a supplementary military plan. This "Plan of the Governments of Uruguay and the United States of America for Their Common Defense," initialed on Oct. 14, was transmitted to the Department of State under cover of despatch 199, from Montevideo, dated Oct. 16, 1953, not printed (733.5 MSP/10–1653).

[2] Ledo Arroyo Torres.

A further complication is the Uruguayan constitutional provision which forbids the voting of appropriations in the 12-month period immediately preceding elections. This would apparently preclude any request for additional funds for the MAAG until after the elections, even providing the government here was disposed to request such funds.

At the close of the period under review, instructions were received by the Embassy to make a further effort to persuade the Uruguayan government to implement the pact by setting up the MAAG. In view of the facts as described above, the officers concerned with this problem are not optimistic that it will be possible to change the Uruguayan government's decision. The Foreign Office, however, has sent instructions on the subject to the Uruguayan Ambassador in Washington, who is expected to further discuss the matter with the Department.

The actual situation is that at present the pact is being implemented and operated without the setting-up of a MAAG organization in Uruguay. This has been accomplished through the USAF mission performing the duties of MAAG. To date, approximately 75 tons of aircraft spares have been received. This equipment is now being warehoused. End-item utilization of some of these parts is expected before the end of the fiscal year 1954.

Due to the problems attending the initiation of MAAG in Uruguay, it is doubtful that visits of the programmed teams will be called during this fiscal year. However, this project will be given further consideration as the conditions surrounding MAAG in Uruguay are clarified.

As regards Uruguay's ability to meet the financial obligations incurred under the pact, reference is made to comments on this subject in Ambassador Roddan's report of July 10, 1953[3] in which he called attention to the government's growing financial difficulties. Since that was written, the government's financial position has further deteriorated. Considering, however, that only relatively small amounts of local currency are required to establish a MAAG in Uruguay, it can be expected that once the government feels able to move ahead, the necessary funds should be forthcoming.

The situation between Uruguay and Argentina continues unsatisfactory with trade and travel practically at a standstill. There seems no immediate prospect of improvement in this situation, which inevitably creates tension and anxiety in a small, relatively defenseless country such as Uruguay. The recent improvement in Argentine-U.S. relations, however, while regarded by many Uruguayans with some uneasiness may eventually pave the way for more normal relations between Uruguay and Argentina.

There has been a definite cooling of Uruguayan traditional friendship for the United States during the past six months, due in part to uneasiness, as just mentioned, over the closer relations between Washington and Buenos Aires, as well as to resentment over U.S. tariff policies, belief that the U.S. is too tolerant of dictatorships, etc. Despite this cooling, however, we believe that there is no reason to doubt that Uruguay would stand firm with the United States on the great issues in world affairs.

In technical assistance, FOA/IIAA activities, civil aviation was added during the past six months to the fields of assistance provided in Uruguay. This makes a total of three new fields of activity initiated during 1953, the other two being Industrial Safety and Census and Statistics, bringing to a new peak the scope of technical assistance to Uruguay. The program continues relatively small, however, with only nine U.S. personnel assigned to this country.

The principal activity in the past six months has continued to be in Public Health, with emphasis on the operation of six health centers. The tenth anniversary of the cooperative health program was celebrated in November with various ceremonies. The U.S. Ambassador made the trip to Young, near Paysandu, and to San Jose, to participate in the opening of a new health center in those towns. Both the ordinary citizenry and the Uruguayan officials in the localities are fully aware of, and appreciative of, U.S. participation in these projects, which have been widely publicized in the local press.

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[3] Apparent reference to despatch 20, not printed (103 MSA/7-1053).

In the field of public administration, progress continued in advising the government on a public purchasing law, sound procurement policies, etc. The census consultants attached to the program continue to work with Uruguayan officials toward the goal of the first national census in many decades. An expert on industrial safety continued his work in this field and an in-service training course for inspectors of the Ministry of Industries and Labor was completed on November 30. A survey was completed in December 1953 of the air traffic control at the international airport in Carrasco near Montevideo. In December, at the request of the Uruguayan state-owned airline, a survey of eight airports in the interior of the country was initiated by an engineer of the regional aviation assistance group. Training grants were awarded in a total of 14 for the year 1953, in the fields of:

Social Welfare
Home Economics
Vital Statistics
Statistics
Agriculture
Industrial Safety
Coast and Geodetic Survey
Railroad Management
Airport Management
Labor

Satisfactory progress in the FOA field continued during the last six months of the year. However, the program continued to be handicapped by dilatoriness of both governments in making their financial contributions available. This delay, usually on the side of Uruguay, has handicapped technical assistance activities in Uruguay practically ever since their inception. In view of the cumbersome way the Uruguayan government proceeds, however, there is little hope that this situation can be entirely cleared up. At the end of the period under review, the Institute had presented to Washington the question of whether the Uruguayan government should be requested to extend the health and sanitation program until 1955; otherwise, it would terminate in 1954. Instructions are being awaited on this point.

Technical assistance is needed in Uruguay to a greater extent than has been requested. Receptivity of the assistance is generally good among the executive departments. On the other hand, the political situation results in slow or no action on proposals before the legislature, under similar conditions encountered by the military assistance pact. The agricultural agreement remains unratified by the parliament and is considered dead in view of the present proposal to obtain assistance from the Food and Agriculture Organization. The basic technical assistance agreement likewise has not received legislative consideration. The Industrial Productivity agreement received preliminary bipartisan approval in August by the plural Executive, but nothing is known as to the reception it may find if and when presented to the parliament. Requests for assistance are usually initiated within the government agencies by interested Uruguayan officials who steer the project so as to obtain the approval of top executive authorities. This manner of making requests, lacking as it does a coordinated approach, has resulted in a spotty program rather than an integrated, balanced program. The prospect for a more balanced program exists, however, if multilateral technical assistance in agriculture through FAO, now awaiting legislative approval, and the Industrial Productivity Program through IIAA, are initiated.

The hundreds of favorable contacts made annually by U.S. technicians with government officials and business men of Uruguay, in addition to the substantive results of technical assistance, are considered to be significantly helpful in focusing attention on the interest of the U.S. in Uruguay's welfare, thus strengthening the feeling of friendship with the U.S among numerous Uruguayans.

Despite the various discouragements and setbacks, it is believed important to the national policy for the United States to continue to try to assist Uruguay in the field of technical assistance.

DEMPSTER MCINTOSH

833.311/8–2754

The Ambassador in Uruguay (McIntosh) to the Department of State

CONFIDENTIAL MONTEVIDEO, August 27, 1954.

No. 71

Subject: Transmitting Conversation with Minister of Finance

Continuing the policy of discussing informally with important government officials the problem of the American packing houses in Uruguay, I met with the Minister of Finance[1] in the latter's office on August 23 for the purpose of further discussing this problem with him (see Emb. Desp. No. 26 of July 20, 1954).[2] Attached hereto is a memorandum[3] summarizing my conversation with the Minister.

With reference to the informal discussions that I have had with government officials, I should add that the American packers had one of their periodic meetings with the Minister of Agriculture and other government officials on the day following my conversation with the

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[1] Eduardo Acevedo Alvarez.

[2] Not printed (833.311/7–2054).

[3] Dated Aug. 23, 1954, not printed.

Minister of Finance. The manager of Frigorifico Artigas (Armour) informed the Embassy subsequent to that meeting that the Minister of Agriculture, at the conclusion of the meeting, said that he has received reports that a "foreign diplomat" was "intervening" in matters being discussed by the committee and that if he confirmed these reports, he was disposed to suspend the work of the committee and carry the matter to parliament. The representative of Frigorifico Nacional at the meeting, following conclusion of the session, informed the American packing house managers that he associated himself entirely with the views of the Minister. A subsequent meeting of the committee was held on August 26, during which, according to the manager of Frigorifico Artigas, the Minister made no reference to his earlier remark and was, on the contrary, exceptionally friendly as was also the representative of Frigorifico Nacional.

As the Department will appreciate from my reports of my previous conversations, I have been careful to discuss these problems on a very informal basis and I have refrained from making any demands or even "representations" during such discussions. Officials with whom I have discussed the problem have been invariably friendly, evidencing no trace of resentment. On the contrary, they have indicated to me that they welcomed the opportunity to discuss the matter in a frank and friendly atmosphere. It will be noted that during my last talk with the Minister of Finance, he himself suggested that I seek another interview with the President of the National Council of Government. While I do not discount entirely the possibility that the Minister of Agriculture, who has an emotional, volatile temperament and who is under heavy criticism from all sides, might attempt to divert criticism from himself or justify a failure of the meetings that he has been conducting to find a solution to the packing house problem, by raising a question of "diplomatic intervention", I believe that we have been following a correct course and that we should not permit his threat to divert us from that course if it appears otherwise desirable that we continue it. On the other hand, I do not believe that we should permit pressure from the private packers to push us along such a course to the point that it becomes counter-productive or jeopardizes other interests.

I should add that the meetings of the government committee with representatives of the private packing houses which have now been going on for a month and a half, have as yet produced no concrete results and that the managers of the American packing houses believe that the only hope of achieving concrete results in these discussions lies in continued informal manifestation of interest on our part in the problem.

Dempster McIntosh

733.5 MSP/9-2454

The Ambassador in Uruguay (McIntosh) to the Department of State

SECRET MONTEVIDEO, September 24, 1954.

No. 123

Ref: Circular Airgram Control 2139, November 24, 1952.[1]

Subject: Report by the U.S. Ambassador to Uruguay to the Director for Mutual Security on the Operation and Status of Programs Under the Mutual Security Act of 1951. Period Covered: January 1 to June 30, 1954.

A. *Country's Adherence to Commitments Made in the Course of MSP Aid Negotiations.*

With the entry into effect of the Bilateral Military Assistance Pact on October 14, 1953, the way was cleared during the period under review for sending grant aid matériel provided for under the agreement. It should be pointed out, however, that only the Air Force was able to receive this matériel since the U.S. Air Force Mission in Uruguay was able to function as an Air Force section of MAAG. This was due to the position taken by the Minister of National Defense who, because of the approaching national elections in November 1954, felt it unwise to set up the type of MAAG contemplated by the agreement and which would result in both further expense to the Uruguayan Government (which would have to be covered by an appropriation sought from the Congress) as well as the entry into Uruguay of additional foreign military personnel at a time when this might be criticized by the Blanco Party, which has consistently made an issue of the military bilateral pact.

Conversations were begun in June with the Minister of Foreign Affairs designed to permit the attachment to the Air Mission of four Navy personnel who would then act as a Navy MAAG and permit the shipment of Navy matériel to begin. The outlook was that the Minister of National Defense would agree to this arrangement.

Uruguay's new National Government will take office on March 1, 1955, and it is hoped that shortly thereafter the position of MAAG can be regularized and to include all three services.

B. *Political Developments Affecting Prospects of Adherence to Force Goals, Including Action on Defense Budgets.*

The approaching national elections made the majority Colorado Party somewhat timid about full implementation of the pact, as explained above. It was considered a foregone conclusion that the Blancos, traditionally anti-U.S., who fought the ratification of the bilateral pact in Congress at the time it was under discussion, would also make a campaign issue out of the pact.

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[1] Not printed.

C. *Major Economic Developments Which Might Appreciably Affect Aid Levels.*

Following a slow and uncertain beginning, the world market for Uruguayan wool steadied and improved which, combined with careful control of Uruguay's imports, resulted in a definitely easier foreign trade position during the period under review. Since wool sales to a large extent determine Uruguay's prosperity, the good season was reflected in a somewhat improved budgetary position for the Government which, however, was still unable to balance its budget. The series of deficits in recent years, combined with the limited local capital market, have tended to make credit tight and restrict new investment. Following a feeling of disappointment that the Inter-American Conference in Caracas in March did not take up economic questions, as the time of the Economic Conference to be held in Rio de Janeiro[2] in November approached, the Government manifested increasing interest in this meeting, at which it hopes major achievements in promoting inter-American economic stability will be forthcoming. A significant economic development during the period under review was the entry of the USSR into the Uruguayan market for heavy purchases principally of meat.

D. *Defense Alliances and Other Developments in International Relations Affecting Security.*

Uruguay's relations with its powerful neighbor to the West, Argentina, continued unsatisfactory, with full diplomatic relations interrupted, travel requirements so onerous as to greatly restrict the number of persons each way, and trade substantially curtailed. The Embassy has no reason to believe there is any likelihood of any substantial change in the situation in the near future.

Relations with Brazil continued friendly, although the inroads of Communism and the ineffectualness of the Vargas regime were disturbing thoughtful Uruguayan observers.

There was considerable uneasiness manifested during the period in review over Argentine encroachments in Paraguay.

The Guatemalan situation was followed with great attention in Uruguay, especially since for a time it seemed as though the projected Foreign Ministers' Conference would be held in Montevideo. Sectors of the press and public opinion were inclined to discount U.S. motives in the Guatemalan case and to be critical of the U.S. position opposing consideration of the case by the UN Security Council. These developments were heavily exploited by anti-U.S. elements in Uruguay.

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[2] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (Rio Economic Conference), held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation on the meeting, see pp. 313 ff.

E. *Effect of MSP Aid in Furthering Internal Political Stability and Security.*

None.

F. *General Progress in Activation of Planned Forces.*

None.

G. *General Effect on Progress Toward Force Goals of Deliveries of U.S. Furnished End-Items.*

The Air Force Mission continued to perform the duties of an Air Force Section, MAAG, grant aid matériel arrived in substantial quantities, cleared the customs without difficulty and was properly warehoused by the Uruguayan Air Force.

At the beginning of this period very little progress was shown by the UAF. Since that time, as more supplies began to arrive and as greater pressure was placed on them by the US Air Force Mission, a definite change in attitude was observed. The morale of personnel has increased proportionately with the amount of supplies arriving. An increased effort to begin utilizing the equipment and to place aircraft in commission has been undertaken and appears to be improving with each passing month. The tactical aircraft in particular are getting a very high priority of consideration in this program. The B–25s began flying during the latter part of this period for the first time in over a year. Additional F–51s were placed in commission as a direct result of the matériel received.

H. *General Ability of Country's Defense Establishment to Utilize Military Aid*

The personnel problem is increasing in severity as spare parts become available to place aircraft in commission. Sufficient trained specialists to maintain the UAF are not available. The supply and maintenance fields are hardest hit by this shortage of personnel. Every effort, as indicated in other paragraphs of this report, is being made to rectify the situation. Very little improvement can be expected in less than one year, as this is the expected duration of the first training program now under way in the Technical Training School.

The Air Force MAAG is firmly convinced that more progress has been made by the UAF during this six-month period than at any other time since the arrival of the Mission. Key staff personnel have accepted new responsibilities and are pushing the MDA Program in a definite attempt to maintain their portion of the mutual security pact.

Although many major problems still exist, it is felt that the hump is passed and real progress will be shown during the forthcoming period.

I. *Major Developments with Respect to Defense Production Plans and Programs.*

None.

J. *Major Trends with Respect to Economic Development Plans and Programs.*

None.

K. *Economic and Social Effects of Point IV Programs.*

In view of the small scale of the Technical Assistance Programs, the country has no problem in utilizing effectively the assistance being provided. The Health and Sanitation program continued to perform a useful function during the period under review, and in addition there was activity in each of the following fields: Public Administration, Census and Economic Statistics, Industrial Safety, Civil Aviation, Development of National [*Natural?*] Resources, and the Training of Nationals in the United States. In addition, negotiations were continued for expanding the scope of the Technical Assistance projects being performed to include the following: A university contract for Technical Assistance in Public Administration; an Industrial Productivity Servicio to aid Uruguay with its problems of industrialization; a project of budgetary management in one of the principal Ministries; and a program for exchange of books between the Uruguayan libraries and the U.S. Book Exchange.

L. *Attitude of Government and Public toward U.S. Aid Programs.*

There was no progress during the period under review toward ratification of the General Agreement on Technical Assistance, which has been awaiting congressional ratification since 1951. It will be recalled that an Agricultural Program for which an agreement was also signed in 1951 had to be abandoned after U.S. experts had spent considerable time in Uruguay because of failure of the Uruguayan Congress to ratify the Agreement. Negotiations for the Industrial Productivity *Servicio* were proceeding satisfactorily at the close of the period under review and it appeared as though there was definite interest in the Uruguayan Government for concluding this agreement. The dilatoriness of the Government toward the ratification of the General Agreement, however, and the failure of the Agricultural Agreement (which normally would be one of the most important fields for Technical Cooperation), indicates that the present political situation in the Parliament does not create the most favorable condition for requests for additional technical cooperation. It is believed that this factor should be kept in mind in planning new programs and also in connection with any consideration of extending the life of the Health and Sanitation Agreement which is scheduled to expire in 1955, but which is to be subject to a critical analysis of future needs in November 1954.

Insofar as the general public is aware of what the U.S. is doing in technical assistance for Uruguay, there is a healthy and friendly attitude toward such cooperation. The FOA experts enjoy considerable prestige and assert an effective influence in the spheres in which they operate. It is still doubted whether in the most important activity—the Health and Sanitation Program—the Uruguayan public realizes the extent of the contribution of U.S. taxpayers.

On the side of military aid, the beginning of deliveries of matériel for the Air Force created an excellent impression in the Armed Forces and among top Government officials familiar with the situation. As deliveries are extended to the Navy, and perhaps later to the Army following official establishment of a MAAG, it is certain that this feeling will become even stronger. It is to be desired that at some future stage after the new Government is inaugurated, steps may be taken to educate the Uruguayan public concerning the utility of U.S. cooperation with the Uruguayan military forces.

DEMPSTER MCINTOSH

Holland files, lot 57 D 295, "Uruguay"

The Ambassador in Uruguay (McIntosh) to the Assistant Secretary of State for Inter-American Affairs (Holland)

CONFIDENTIAL
OFFICIAL–INFORMAL

MONTEVIDEO, December 1, 1954.

DEAR HENRY: The results of the Uruguayan elections are now in and Luis Batlle Berres and his Lista 15 have won by an unexpectedly large majority. The result is that Lista 15 will have 6 of the 9 members in the new National Council of Government with Luis Batlle Berres as the President.

It is obviously important that we develop and maintain close friendly relations with Batlle Berres in the future. As you know, Batlle Berres is a strong, dominant character and he will unquestionably personally exercise a great deal more power and authority in the Uruguayan Government, which comes into office next March, than the present president, Martinez Trueba has done.

Batlle Berres has never been to the United States and he has indicated on a number of occasions that he would be very much interested in visiting the States. I personally feel that if an official invitation were to be issued to Batlle Berres to visit the United States, such a visit would be a tremendously important factor in improving our relations with Uruguay in the future and I would urge that serious consideration be given to extending an official invitation to Batlle Berres as soon as may be possible. It is quite possible that Batlle Berres, if an invitation were extended to him, would be prepared to visit the United States in January or February in the capacity of the elected president of the National Council of Government of Uruguay, but if an invitation could not be extended that soon, I presume Batlle Berres would welcome an invitation to make an official visit to the United States later in the year.

Due to his temperament, I feel that Batlle Berres would be particularly affected by the attention which would be paid to him on an official visit and in my opinion, such a visit to the United States would result in Batlle Berres' becoming a more friendly and a more dependable ally of our country. While ostensibly friendly to the United States, at various times during the past year, in his newspaper *Acción*, Batlle Berres has taken quite a critical position towards us, but I feel that a visit to the United States would do much to change his attitude in the future.

I fully understand that I should not indicate to Batlle Berres in any way that he may expect an offical invitation to visit the United States, and I have not done so, nor will I do so in the future unless I am instructed accordingly. However, I feel that the matter is of such importance that I am writing to you to recommend that the Department consider the extension of an invitation to Batlle Berres at the first opportunity.[1]

I am sure that the Conference in Rio has been very difficult, but I trust the final results will be reasonably satisfactory.

With kindest regards, I am

Sincerely yours,

DEMPSTER MCINTOSH

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[1] In a letter to Ambassador McIntosh, dated Dec. 30, 1954, Assistant Secretary Holland stated in part: "I agree with you that it would be extremely advantageous if we could arrange to have Señor Batlle Berres visit the United States but I am not hopeful that a decision will be reached in the near future." (Holland files, lot 57 D 295, "Uruguay")

VENEZUELA

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND VENEZUELA[1]

731.5/2–152

Memorandum of Conversation, by the Military Attaché in Venezuela (Shaw)[2]

TOP SECRET

CARACAS, 31 January 1952.

Ambassador Warren and Col. Shaw had an audience with Col. Marcos Perez Jiménez[3] this morning from 11:30 a.m. until 12:10 p.m. The Ambassador had requested the audience for the purpose of discussing with the Minister (1) certain points concerning military aid to Latin American countries under the terms of the Mutual Security Act[4] and (2) the continuation of military planning talks between the Ministry of Defense and General Morris'[5] headquarters in the Canal Zone.

The Ambassador began the conversation with an explanation to the Minister that a recent United States law authorized the granting of military aid to Latin American countries at United States expense in order to further western hemisphere defense. Venezuela has not been included in this program because the law is aimed primarily at arming those Latin American countries which cannot afford to arm themselves. Since Venezuela has a splendid record of wishing to pay cash for all arms assistance that she may receive, it is hoped that Venezuela will understand why she is omitted from the current list of countries to receive free arms aid and will continue to be willing to pay in the future as she has been in the past. It was also brought out that Venezuela's desire to pay for whatever she needs had been of assistance in obtaining the Mutual Security Act.

Colonel Perez Jiménez seemed to accept without hesitation the idea that Venezuela will continue to pay her own way, then entered upon rather warm remarks to the effect that although Venezuela is willing to pay and wants to pay, she has been unable to receive any of the arms that she has sought to buy from the U.S. He referred to the destroyers which Venezuela had wanted to buy from the United States but had been unable to procure even though Chile and Peru received destroyers. The Ambassador replied that he was very familiar with the negotiations for and the sale of naval equipment to Latin American countries and made it clear to the Minister that no request to purchase ships had been received from Venezuela while he was in the Department and that all countries making requests had been treated equally.

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[1] Continued from *Foreign Relations*, 1951, vol. II, pp. 1623 ff.

[2] Transmitted to the Department of State under cover of despatch 1182, from Caracas, dated Feb. 1, 1952, not printed (731.5/2–152).

[3] Member of the Venezuelan Government Junta and Minister of Defense.

[4] Reference is to the Mutual Security Act of 1951 (Public Law 165), approved Oct. 10, 1951; for text, see 65 Stat. 373.

[5] Lt. Gen. William H. H. Morris, Jr., USA, Commander in Chief, Caribbean.

The Minister then turned to a general discussion of the army weapons and equipment that have been requested by Venezuela and talked at considerable length detailing the specific equipment and arms that Venezuela wanted and always coming back to the point that Venezuela was having very little success in obtaining the items. He referred to the military planning talks which took place in General Morris' headquarters in March 1951[6] and stated since that time Venezuela—although its army wants have been made known since late 1950—had not received one item of equipment. It had received some replacement parts for F–47 aircraft and that was all.

The Ambassador then asked Colonel Shaw if he wished to make any remarks to the Minister in this matter. Col. Shaw stated that according to his understanding from State Department correspondence addressed to the Ambassador plus talking to Department of the Army officials, the United States was willing to proceed with the sale to Venezuela of practically everything on the list with the exception of tanks which are not currently available because tank production is going to our United States forces and to European nations under NATO. So far as tanks are concerned, Col. Shaw stated that the United States has never refused to sell these to Venezuela, but has stated repeatedly that the tanks will not be ready for some two years and as a substitution proposed an armored car for almost immediate delivery but with Venezuela, however, not being willing to accept the armored car as a substitute for tanks. Col. Shaw further stated that it is currently his understanding that within the past few months four (4) contracts of sale have been offered to Venezuela by Department of the Army and that no word has been received from Venezuela as to whether or not it accepts the contracts.

The Minister of Defense then replied that Venezuela does not want to pay full price for the articles at the time of signing the contract but wishes the advantage of some form of percentage payments (referring to the matter which was taken up by this Embassy in November 1951 when Col. Moreno[7] informed the Army Attaché that the Minister was not agreeable to further military planning talks until the United States had agreed upon some form of installment payments). The Ambassador then stated that it was his understanding that the Venezuela Foreign Office had instructed its Washington Embassy to discuss payments with the State Department. The Minister hesitated somewhat upon hearing this remark and then upon recovering himself stated that about two weeks ago the Foreign Office had notified its Washington Embassy that it would not concur in the method of payment as outlined by the State Department (in advice to this Embassy).

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[6] For the results of planning talks between the Chiefs of Staff of the Armed Forces of Venezuela and the U.S. Commander in Chief, Caribbean, at Quarry Heights, Canal Zone, Ma 19–23, 1951, see *Foreign Relations*, 1951, vol. II, pp. 1626–1633.

[7] Felix Roman Moreno, Chief of Staff, Venezuelan Armed Forces.

The Ambassador then stated to the Minister that he personally and the Army Attaché considered the matter of the arms purchase to be so important that they stood ready at all times to do everything possible to clear the matter up, to resolve misunderstandings, and to speed the sale and receipt of the desired equipment. He asked if the Minister could furnish the Embassy with a list of all material which has been requested by Venezuela and which has not been received. The Minister agreed to do this and stated he would get his staff to work upon the list immediately.

The Ambassador then asked the Minister about the possibility of resuming the military planning talks in the near future and the Minister replied that he hoped to give us an answer on that soon after discussing it with his Chief of Staff. The audience terminated at this point.

The audience was conducted in a friendly atmosphere but was none the less very frank on both sides. It should be remarked that at the opening of the conversation, the Minister spoke rather passionately as if Venezuela has not received equal treatment with other Latin American countries. Certainly, while the thought was not specifically expressed, he left no doubt that he was not happy in this thought. At the end of the conference after hearing the Ambassador and Col. Shaw, the Minister seemed more subdued as if he had begun to realize that perhaps not all the delay in the purchase of military equipment lies with the United States.

L[AWRENCE] E. S[HAW]

Miller files, lot 53 D 26, "Venezuela"

The Ambassador in Venezuela (Warren) to the Assistant Secretary of State for Inter-American Affairs (Miller)

SECRET

CARACAS, February 5, 1952.

DEAR ED: While I am sure you know I have never suffered from any illusion that the successful negotiation of revisions to our existing reciprocal Trade Agreement[1] with Venezuela would be an easy matter.[2] I have never been pessimistic with regard to the eventual outcome and I am not pessimistic today. However, I am enough of a realist to recognize after my few months in Caracas certain of the difficulties which must be overcome. I have just had a long talk with the Foreign Minister, Dr. Gomez Ruiz, and the principal item on my agenda was the Trade Agreement. As a result, it is my judgement that, in addition to the Embassy's despatch no. 1198 of today,[3] containing an analysis of present thinking in Venezuela relative to the Trade Agreement, together with my telegram no. 340 of today,[4] you should be informed directly in this manner of the way the problem seems to be shaping up.

The fundamental difficulty, as I see it, is that unfortunately and due to causes entirely beyond our control, this matter of the Trade Agreement has been delayed too long. You are familiar with the efforts made last year by the Embassy to prevent a unilateral denunciation of the existing Agreement when local pressures from the protectionist group powerfully influenced the thinking of the Foreign Minister from a domestic political standpoint. Eventually the necessary legislation renewing the Reciprocal Trade Agreement Act was passed by the Congress,[5] and this was followed by a brief period of high hopes on the part of the Venezuelans that it would not be long before a revised agreement could be reached. Despite all our efforts, they simply did not understand the cumbersome and time-consuming procedures required by our laws, and, despite the fact that the hearings before the Tariff Commission and the Reciprocity Information Committee were accomplished without any unreasonable delays, a general atmosphere of dissatisfaction and impatience developed toward the end of the past calendar year.

With the return from abroad of the Foreign Minister, he found himself faced with a situation that was far from easy from a domestic political standpoint. He is too well informed to believe that formal negotiations for revisions can actually begin much before April 1st, and the time necessary for such complicated negotiations, even at the most optimistic estimate, would not be less than 90 days. The question confronting him then is whether or not he feels strong enough to hold the line through the first six months of this calendar year.

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[1] For text of the referenced agreement, signed Nov. 6, 1939, and entered into force, Dec. 14, 1940, see 54 Stat 2375.

[2] The United States agreed in 1951 to renegotiate the existing trade agreement with Venezuela.

[3] Not printed (411.3131/2–552).

[4] Not printed (611.31/2–552).

[5] Apparent reference to the Trade Agreement Extension Act of 1951 (Public Law 50), approved June 16, 1951; for text, see 65 Stat. 72.

Dr. Gomez Ruiz knows very well that we in the United States are in the middle of an election year. He also knows that within his own country the Government in power is committed to a carrying through of the electoral statutes without delay. Under such circumstances it seems to me that we must recognize the fact that the Government of Venezuela at present is not only a Military Junta but that more and more real power is being concentrated in the hands of one member[6] of the Junta. There is no Cabinet Minister today in Venezuela whose authority is great enough to stand alone on any major political subject, and, regardless of how much the Foreign Minister may wish a successful renegotiation of the Trade Agreement, he may be forced, if there are further delays, accompanied by increasing domestic pressures, to accede to the wishes of one member of the Junta.

I believe firmly that if there should be a failure to negotiate successfully a revision of the existing Trade Agreement, there would inevitably set in a deterioration in relations between the United States and Venezuela, and in all probability the solution of many pending problems, such as, for example, our bilateral Civil Aviation Agreement,[7] might become impossible of mutually satisfactory solution.

Unless the administration in power can present to the people of Venezuela a revised Trade Agreement which will clearly and unequivocally show a material improvement over the Mexican Agreement as far as oil is concerned and simultaneously give to the protectionist group in Venezuela part of what it demands, the prospects at this moment, to my mind, of a successful renegotiation are definitely not bright. I believe, therefore, that if anything can be done in the way of speeding up the delivery of arms and military equipment to Venezuela, such action would tend to remove existing irritation and help to put the Military Junta in a more favorable frame of mind to support the Foreign Minister in his plea for more patience. Furthermore, if we are finally able to enter into actual negotiations, every member of the U.S. team must be impressed with the fact that under the existing emergency there is far more to be gained by granting concessions, even at the risk of having it considerd a "one-way street", than there is to try to negotiate on a strictly legalistic basis.

As I said at the beginning, I am not pessimistic. The Foreign Minister is subject to the influence of his principal adviser on this matter, Dr. Reyna,[8] who has pointed out clearly that Venezuela has a better chance for obtaining a degree of protectionism if it does not fight too hard on petroleum. Furthermore, Mr. Wolf[9] has continually pointed out to Dr. Reyna that in the redrafting of the basic provisions of the existing Trade Agreement, certain advantages may accrue to Venezuela, particularly with regard to quantitative restrictions, which could eventually prove more valuable than the specific items in Schedule I. Reyna knows these things, and the Foreign Minister is considering this problem. However, we are fighting against the bad effects of long delays and no one who is well informed could say positively today that the patience of the Foreign Minister himself may not become exhausted any day. To prevent this from happening, we must find some way to create a new atmosphere of hope. I have only suggested specifically the speeding up of the delivery of arms and military supplies. Other ways of accomplishing our purpose may be apparent in Washington.

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[6] At this point in the margin of the source text appears the following handwritten notation, initialed by Deputy Assistant Secretary of State for Inter-American Affairs Mann: "And, in my opinion, one who is basically *unfriendly* to us."

[7] Apparent reference to the agreement signed in 1948, but never ratified by the Venezuelan Government.

This afternoon Mr. Proudfit[10] of Creole called on me to discuss the two problems of the oil concessions and the Trade Agreement, which problems, incidentally, he regards as probably closely related. He had just spent almost four hours with Otis Ellis[11] and was seriously disturbed. After he had presented his views relative to the danger, not only to Venezuela but to the United States, of Venezuela's granting new concessions to independents without adequate financial and moral responsibility (and I cannot emphasize too strongly that he would be more than willing to see the right types of independent operators come in) he stated that he was gravely concerned with the possibility that the Foreign Minister might denounce the Trade Agreement unless he could clearly show to the Venezuelan people that he had obtained something better than the Mexican Agreement. He said he was thoroughly convinced that the peril point findings of the Tariff Commission had resulted in a rate of 10½ cents and he added that while Otis Ellis protested continually his ignorance, he felt Otis Ellis was convinced that the rate is 10½ cents. He said that he was considering departing for Washington immediately by air in order that he could do his part without any further loss of time in preventing any official action on the part of the United States which might force Gomez Ruiz to denounce the Agreement. Mr. Proudfit analyzed at great length and with considerable force the reasons for the present thinking of the Foreign Minister. He then added that he was unable to understand why, in a matter of such grave importance as this to the United States, the President might not be convinced of the advisability of declining to accept the findings of the Tariff Commission, inasmuch as the President in his announcement could always refer to the fact that domestic American interests were adequately protected under the law by the escape clause. He realized that it was a presidential election year, but he felt that the risks involved at this time of emergency of the possibility of deterioration of our relations with Venezuela were all together too great to permit the President to be too much influenced by the domestic political situation of our country.

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[8] Manuel Reyna, Director of Economic Policy, Venezuelan Ministry for Foreign Affairs.

[9] Franklin W. Wolf, Counselor of Embassy for Economic Affairs, Caracas.

[10] Arthur T. Proudfit, President, Creole Petroleum Corporation.

[11] Representative of the Venezuelan Ministry of Mines and Hydrocarbons.

Both Mr. Wolf and I were greatly impressed with the intense seriousness of Mr. Proudfit, a man who is not only extremely level headed but has been the outstanding leader in the petroleum industry in Venezuela for more than a quarter of a century. We believe that he is not in any way acting from selfish interests, and I am sure that, if he should indeed depart for Washington within the next few days, you will not only want to receive him but do everything possible to facilitate the purposes of his mission.

While the above was being written, Mr. Nelson Rockefeller called to pay his respects on February 6th. We reviewed the political situation and during our conversation he asked me about the progress on the Trade Agreement. I told him frankly of the situation as related in paragraph 5 of my telegram of today.[12] He immediately asked me if the oil people understood the situation. I told him that Mr. Proudfit had followed the matter as closely as has this Embassy, and that he had the matter very much on his mind and was trying to figure out what he might do about it. Mr. Rockefeller stated that he was seeing Mr. Proudfit later today (I believe he left my office to go to see Mr. Proudfit). As our conversation progressed, he said that he would like to do something to assist in the matter and, after reflection, stated that he could talk with Mr. Steelman[13] at the White House since his relations with that official are very good. He asked me what I thought of the idea, and I did not hesitate to say that I thought it was opportune and very good. Consequently, we will have the support of both of these gentlemen in an endeavor to get an agreement.

I should add that last evening (February 5) I saw Mr. Swensrud,[14] President of Gulf Oil. He had learned about the stand of Dr. Gomez Ruiz, and asked me about it. Without talking as freely or to the extent that I did with Mr. Rockefeller, I told him what the situation is at this time. He said that, when he got back to New York, he might make a trip to Washington to see whether he could be of any assistance. I feel sure he will come to see you should he decide to try to assist. I was much impressed by him.

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[12] See footnote 4 above.

[13] John R. Steelman, the Assistant to the President.

[14] Sidney A. Swensrud.

All of us in the Embassy are agreed that there is no time to be lost. Unless some way can be found at once to assure the Foreign Minister that there is a chance of his coming up with a revised agreement, better on oil than the Mexican Agreement, there will probably be, at an early date, a denunciation of the existing agreement with all the unfortunate effects which I am sure are evident both in Caracas and Washington. Franklin Wolf and I see Srs. Reyna and Gomez Ruiz on Monday. We shall try to hold the fort until the recommendation of the Tariff Commission is known and we can be sure what are the next steps to be taken.

With warmest regards,

FLETCH

Miller files, lot 53 D 26, "Venezuela"

The Deputy Assistant Secretary of State for Inter-American Affairs (Mann) to the Ambassador in Venezuela (Warren)

CONFIDENTIAL [WASHINGTON,] February 6, 1952.

DEAR FLETCH: Ed Miller has referred to me for reply your letter of January 24, 1952.[1]

As you know, the premise on which the policy rests—and which I believe to be sound—is that contributions by American-owned companies to the political campaigns of particular groups render the companies vulnerable to charges of partisanship and intervention. We believe that the long term interests of American-owned companies are best served by their observance of strict impartiality in local politics.

The suggestion that contributions can be considered as directed against the communist simply doesn't hold water for, unless conditions have changed greatly since I was there, communist strength is relatively small compared with that of the COPEI, URD and Accion Democratica supporters. If it should become known that contributions to the government party have been made, all three of these non-communist groups would be antagonized and no one can be sure that one or all of them will not one day exercise political power in Venezuela.

If contributions were made in order to obtain concessions, the concessions, if they were granted, would be tainted with fraud which, if established later, would probably be considered by most Venezuelans ground for their cancellations. Not only would the concessions obtained through fraud be in peril but the investments in them as well. The position of other concessions not tainted with fraud would likewise be weakened.

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[1] In his letter, Ambassador Warren informed Assistant Secretary Miller that Mr. Proudfit had been asked to make a contribution to the campaign fund of the party in power in Venezuela on the grounds that Communists were aligning themselves with opposition forces for the forthcoming elections. He further stated that Mr. Proudfit had refused the request, but in view of the possibility that other firms would be approached, the problem for the Embassy was how to assure a united front among the American-owned oil companies (Miller files, lot 53 D 26, "Venezuela").

We therefore believe that Mr. Proudfit's decision was a wise one and I hope that he will hold to it regardless of what other companies may do. I believe he was also wise in passing the buck, as it were, to the Embassy which is in a better position than Creole to resist pressure for contributions.

As for the other companies, I hope they will do likewise though I have no doubt that a few individuals will be tempted to repeat, in a different form, the mistake made a few years ago when a petition condemning Accion Democratica was signed by a number of American citizens.

It is, as you say, extremely difficult to ensure that the oil industry will present a united front on this issue. As a practical matter, we do not have the power to force them to accept our advice. I never subscribed to the theory that an American-owned company making a contribution forfeits all claim to protection by our Government. It might be possible that the circumstances surrounding the contribution would be so flagrant that we would be unable to give effective protection if action were taken by the local government to punish the company for intervention; but even within these narrow limits I believe that the prudent thing is to avoid discussion of the degree of protection which we might or might not decide to give in the future.

It seems to us that the problem of bringing about a united front is essentially one of tactics which you are in a better position to judge than we. I assume that Mr. Proudfit would, if he has not already done so, present the Department's and Embassy's views to his colleagues. If you believe that informal conversations between you and the heads of companies would have good results, there would be no objection to your discussing the problem with them informally on the basis of their self-interest. I think this largely depends on your personal relationships with people like Bill Woodson. Perhaps Mr. Proudfit would have some suggestions on whether this or some other kind of an informal approach would, under present circumstances, be helpful.

I am sorry I am unable to be more explicit but the tactics must, I think, be made to fit the local situation. In any case, I am sure that we will agree that whatever is done should be done quietly and in a friendly manner and that the Embassy should report any such political contributions which come to its knowledge.

Sincerely,

THOMAS C. MANN

611.31/2-1352

Memorandum of Conversation, by Maurice M. Bernbaum of the Office of South American Affairs

SECRET [WASHINGTON,] February 13, 1952.

Subject: Venezuelan Position on Military Equipment

Participants: Arthur Proudfit, President, Creole Petroleum Corporation
George Koegler, Standard Oil Company
Ambassador Edward Sparks
Mr. Mann
Mr. Bernbaum

Mr. Proudfit described a recent conversation with Colonel Marcos Perez Jimenez, Venezuelan Minister of Defense and Member of the Military Junta, regarding Venezuelan-US relations. Colonel Perez Jimenez then told him of his complete dissatisfaction with the negative response of the US Government to Venezuela's repeated orders for military equipment and expressed the opinion that the US did not really intend to furnish Venezuela with its requirements. While conceding good will toward Venezuela in the Department of State and in the US as a whole, he expressed the opinion that such good will did not apply to the present Military Government and that this situation was accordingly reflected in US indifference to the aspirations of the Military Junta for a build up of its military strength. Responding to Mr. Proudfit's protestations that there must have been a misunderstanding, Colonel Perez Jimenez went on to say that there was no basis for any misunderstanding since Venezuelan requirements for military equipment were clearly stated and actually approved by the US Military Negotiators at the US-Venezuelan Military Staff Talks recently held at Panama. Colonel Perez Jimenez stated that he was fully aware of the limitations on the extent to which Venezuela could expand its military forces and that Venezuela would not be in a position under any circumstances to do any effective fighting outside of its own territory or, for that matter, adequately to defend the sea approaches to Venezuela. He did insist, however, on his determination to build up a force adequate to protect Venezuela's strategic petroleum and iron ore installations. Colonel Perez Jimenez was further quoted as having stated that this question of military equipment was the most important of all outstanding problems between Venezuela and the United States. Mr. Proudfit explained this emphasis on military equipment as due largely to the pressure being exerted upon Colonel Perez Jimenez by a large number of his subordinate officers. One of them was quoted as having stated that they amount to no more than tin soldiers in the absence of the equipment necessary to make the Venezuelan army an effective fighting force. (It may clearly be inferred that Colonel Perez Jimenez considers that his most important problem is that of maintaining his prestige within the army as the basis for his continued control over the army and Venezuela as a whole. His ability to secure modern arms in adequate quantity would be a most important factor.)

Mr. Mann thanked Mr. Proudfit for this information and told him that this problem of military equipment was thoroughly understood in the Department which had been devoting a great deal of time and energy to its solution. He then described in detail the long series of misunderstandings due largely to the fact that the Venezuelan Government had not been following through with the Department of Defense on its orders for equipment. He pointed out that the list submitted by the Venezuelan Government at Panama had been submitted as an explanation of Venezuela's aspirations and had not been supplemented by firm orders to the US Government. In those relatively limited cases in which firm orders were submitted through the Department of State, there had not been the necessary follow-through to confirm such orders after the Venezuelan Military Attaché in Washington had been apprised of the results of price and availability studies. In other words, the problem here seemed to be largely one of procedure rather than of substance which would best be solved by the appointment of capable Venezuelan personnel both in Washington and in Venezuela to formulate Venezuelan requirements and follow them through the Departments of State and Defense. Mr. Mann stated that ARA had finally determined that it would be necessary for it to furnish this service to the Venezuelan Government. The Bureau has as a result undertaken the unprecedented function of maintaining a running check list of equipment ordered by the Venezuelan Government through the Department in order that such requests might be carried through to a successful conclusion.

Mr. Mann then stated that the Venezuelan Government had little to fear from the priority situations. Although its needs for specific items of military equipment would naturally be evaluated in terms of the needs in other theaters faced with present or potential shooting wars, its priority position had recently been improved to the point where it was in a far more favorable position than most countries outside of NATO. Mr. Mann added that this was a most encouraging development in the Department of Defense which had been sponsored by State and that it should undoubtedly be reflected in a relatively smooth flow of equipment to Venezuela on the basis of orders effectively placed by that country. He pointed out, however, that it would not always be possible to grant to the Venezuelan Government the specific items of equipment when desired. He mentioned tanks as an example of equipment desired by Venezuela which was also in critical demand for Korea and the build up of essential NATO forces. He added that the Venezuelans had insisted upon the most modern models and had thus far consistently refused to accept any old models or substitutes such as armored cars which would do an equally effective job in Venezuela. He stated that the Venezuelan Military Attaché had recently been referred to the appropriate Defense authorities in the hope that a mutually satisfactory arrangement might be worked out.

Mr. Mann then referred to Venezuelan grievances over payment terms. He stated that our laws did not permit us to accede to the Venezuelan suggestion that all equipment be purchased on the basis of a 25% down payment with the remaining 75% to be paid upon delivery. We have, however, been able to work out an arrangement which was equal to the best treatment accorded any other country. Venezuelan purchases were, under this arrangement, divided into three categories:

1. Equipment already available for delivery on which payment would naturally be made immediately;
2. Equipment requiring rehabilitation or modernization—payment terms in this case would involve periodic payments on demand for the cost of rehabilitation and payment for the original value of the equipment shortly before delivery; and
3. New equipment requiring manufacture—in this case orders might be divided into two general categories: the first would involve equipment being manufactured by firms which could not finance their own operations for one reason or another and which accordingly required progressive payments as equipment was being manufactured. Since the US Government was precluded by law from financing such advances on behalf of a foreign government, these advances would have to be made by the Venezuelan Government upon demand. The other involved equipment being manufactured by firms in a position to do their own financing. In such cases the Venezuelan Government would not be required to make any payments until shortly before delivery. Mr. Mann then pointed out that this represented a tremendous cutting and elimination of red tape and appeared to constitute a most reasonable approach to the matter. It clarifed the fact that it was not the US Government which was manufacturing and selling the equipment to the Venezuelans but rather individual firms for which the US Government was in fact acting as agent.

Mr. Mann stated that the foregoing had recently been conveyed to the Ambassador [1] on one occasion and on another to the Counselor[2] and Military Attaché[3] of the Venezuelan Embassy in the form of a memorandum[4] and detailed oral explanation. Although hoped that this information would be passed on accurately to the Venezuelan Government, we are also furnishing it to our Embassy in Caracas which would be in a position to make certain that all was completely understood by the appropriate Venezuelan military officals.

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[1] Antonio Martín Araujo.

[2] Aureliano Otáñez.

[3] Lt. Col. Federico Schael.

[4] The referenced memorandum, drafted by Mr. Davis, dated Feb. 8, 1952, is not printed (731.5 MSP/2–852).

Mr. Proudfit expressed his complete understanding of the problem being faced by the Department and approval of the manner in which it was being handled. He added that he would be delighted to pass on this information to Colonel Perez Jimenez immediately upon his return to Venezuela. In thanking Mr. Proudfit for his assistance, Mr. Mann suggested that he visit the Embassy for a thorough briefing on details before seeing Colonel Perez Jimenez. Mr. Proudfit agreed that this would be a good idea.[5]

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[5] In telegram 380, from Caracas, dated Mar. 2, 1952, Ambassador Warren reported that Col. Pérez Jiménez had expressed satisfaction with the recent U.S. offer to sell light tanks to Venezuela, that he raised no objection concerning the method of payment, and that his attitude had "changed completely." (731.5 MSP/3-252)

Secretary's Staff Meetings, lot 53 D 444

Notes of the Secretary's Staff Meeting, Held in the Department of State, 9:30 a.m., February 14, 1952

SECRET
SM N-6

[Here follows discussion of matters unrelated to Venezuela.]

Venezuelan Trade Agreement

5. Mr. Miller reported Venezuela's desire to renegotiate their trade agreement, in order to have a lower duty on petroleum products. He reviewed the trade agreement as it is related to the cancellation of the Mexican trade agreement. ARA feels that it is necessary to go down to 5¼ cents a barrel duty on petroleum products. If this is done by the President, it would disregard the peril point findings of the Tariff Commission. Mr. Miller and Mr. Thorp have had discussions with Mr. Steelman who is sympathetic with our position. The basic problem involved is whether we will have to disregard the Tariff Commission findings and go below the peril point. Mr. Thorp felt that it would help if we got some concessions from Venezuela. Mr. Miller pointed out that some of the oil companies would support our move, but the coal people would generally oppose it. Mr. Thorp noted that we are approaching Defense on this problem.

[Here follows discussion of additional matters unrelated to Venezuela.]

411.3131/2-2952

Memorandum by the Secretary of State to the Executive Secretary of the National Security Council (Lay)[1]

SECRET WASHINGTON, February 29, 1952.

Subject: The National Security Interest in Successful Trade Agreement Negotiations with Venezuela

There is transmitted herewith for circulation to the National Security Council, with the request that it be scheduled for consideration at the Council's meeting on Wednesday, March 5, 1952, a memorandum relating to the national security element in current trade-agreement negotiations with Venezuela.

The question as to the tariff concession on petroleum which should be offered by the United States in current trade agreement negotiations with Venezuela is now being considered by the interdepartmental Trade Agreements Committee, which will make its recommendations directly to the President. Members of the Committee feel, however, that an important factor to be weighed by the President in making his decision is the extent to which the United States has a national security interest in Venezuelan petroleum, and that this national security element is a matter on which the President may wish advice from the National Security Council.

Accordingly the attached memorandum for consideration by the Council relates solely to the importance of the national security element as a factor to be weighed by the President in making his decision with respect to the tariff concession on petroleum and does not request consideration or approval by the Council as to what that concession should be in the light of all the factors involved.

DEAN ACHESON

[Annex]

Paper Prepared in the Department of State[2]

SECRET

THE NATIONAL SECURITY INTEREST IN SUCCESSFUL TRADE AGREEMENT NEGOTIATIONS WITH VENEZUELA

PROBLEM

To evaluate the national security interest of the United States in successful trade-agreement negotiations with Venezuela.

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[1] Forwarded to the National Security Council for consideration at its meeting on Mar. 5, 1952, under cover of a memorandum by Mr. Lay, dated Feb. 29, 1952, not printed.

[2] No drafting information appears on the source text; presumably drafted by Chairman of the Interdepartmental Committee on Trade Agreements Carl D. Corse.

DISCUSSION

1. Upon termination of the trade agreement with Mexico on January 1, 1951, the tariff on certain petroleum products imported into the United States[*] increased from 10½ cents per barrel, applicable to all imports, to a tariff quota arrangement under which annual imports in excess of a specified quantity[†] were made dutiable at 21 cents per barrel. This was the customs treatment originally provided for in the 1939 trade agreement with Venezuela.

2. On request of the Venezuelan Government, the United States agreed to negotiate a supplementary trade agreement with Venezuela under which a reduction in the present tariff on these petroleum products would be considered.

3. As required by the Trade Agreement Extension Act of 1951, the Tariff Commission reported a "peril point" finding on the petroleum tariff to the President on December 28, 1951. The Tariff Commission was evenly divided in its vote. Three Commissioners found that the existing customs treatment, i.e. the present tariff quota arrangement, was the peril point. The other three Commissioners found that a rate of 10½ cents on all imports would not result in injury being caused or threatened to the domestic industry. For all practical purposes, therefore, the "peril point" is 10½ cents on all imports. The findings of all the Commissioners were based on the prospective threat to domestic industry posed by possible future contingencies (e.g. return of Iran to world oil trade) rather than an immediate threat under existing conditions of trade.

4. Fairly conclusive evidence exists that the Venezuelan Government will not accept an offer of 10½ cents on all imports, that it will break off negotiations of the supplementary agreement unless a concession going below that level is offered, and that it will then proceed to terminate the existing trade agreement. Although it is proposed to use every effort to persuade the Venezuelans that it is in their interest to

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[*] Crude petroleum, topped crude, residual fuel oil and distillate fuel oil. In general, United States tariff rates apply equally to imports from all foreign sources except countries under Soviet domination. [Footnote in the source text.]

[†] A quantity equal to 5% of crude petroleum processed in refineries in the continental United States in the preceding calendar year. [Footnote in the source text.]

agree to negotiate on the basis of an offer of no less than 10½ cents on all imports of petroleum, such efforts may be unsuccessful.

5. Successful conclusion of a supplementary trade agreement with Venezuela, therefore, may entail the granting by the United States of a tariff concession on petroleum which would go below the "peril point" for petroleum found by the Tariff Commission. The President is legally authorized to make such a concession, if he reports the reasons to Congress. Also, if such a concession were qualified to prevent any threat to domestic industry posed by possible future contingencies, he could properly make the concession without departing from his commitment to Congress that he will not administer the Trade Agreements program so as to endanger a domestic industry. Nevertheless, there would be strong criticism from domestic petroleum and coal interests which could easily cause a setback to the trade agreements program as a whole. It is important, therefore, to determine whether our national security interest in maintaining satisfactory trade agreement relationships with Venezuela is an important element to be weighed by the President in reaching his decision.

6. The national security elements to be considered are as follows:

a. An adequate supply of Venezuelan oil is vital in event of total mobilization in the United States. NSC 97/2[3] concludes, on the basis of PAD–185, that total supply of petroleum available to the free world, (including Venezuelan production from existing concessions) will fall short of requirements by 1,300,000 b/d ‡ (barrels per day) during the first six months of a war commencing on July 1, 1952, and by 600,000 b/d in 1955. A more recent and lower estimate of Venezuela's productive capacity from existing concessions indicates even greater deficiencies during this period. The granting of new concessions by Venezuela would help fill this deficit. Although substantial progress has been made towards securing such new concessions, the Venezuelan Government has suspended action on concession applications already filed pending the outcome of the trade agreement negotiations. Failure to reach a satisfactory agreement with the United States, reinforcing existing political opposition to the granting of new concessions, might result in the cancellation or at least the curtailment of new concessions.

b. Venezuela is an outstanding example to the rest of the world of cooperation between foreign investors and the government for their mutual benefit. The danger of nationalization of the oil industry in Venezuela is not critical. However, popular sentiment for such action is present in Venezuela. Deterioration of relations as a result of failure to conclude a trade agreement would undoubtedly strengthen such sentiment. Retention of foreign oil production in the hands of private American companies to the fullest possible extent better serves our security interest in oil than does national ownership of oil resources.

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[3] NSC 97/2, entitled "A National Petroleum Program," was approved by President Truman on Dec. 13, 1951; for text, see *Foreign Relations*, 1951, vol. I, p. 978.

‡ Assuming the loss of Middle Eastern and Southeastern Asian oil. [Footnote in the source text.]

c. The terms of the existing tax provisions between Venezuela and the oil companies provide that the Government shall receive at least 50% of the profits. This pattern is being used as a basis for stabilizing relations between oil companies and other governments, particularly in the Middle East. If no new trade agreement is agreed to and the existing trade agreement is terminated, Venezuela will undoubtedly insist on renegotiating the existing contracts in order to recover loss of revenue resulting from an increase in United States tariff on petroleum.

d. Because of its geographical location and because of the availability of other strategic materials such as iron ore, there is a collateral security interest in maintaining the best possible relations with Venezuela.

RECOMMENDATION

7. That the National Security Council (a) affirm the importance to the national security of our petroleum arrangements in Venezuela and (b) recommend to the President that this national security interest be given full weight in determining the tariff concession on oil which might be offered to Venezuela consistently with the principles and policies governing the administration of the Reciprocal Trade Agreements Program.[4]

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[4] The NSC at its 113th meeting on Mar. 5, 1952, adopted the recommendation in paragraph 7 and subsequently submitted it to the President for consideration. (NSC Action No. 616)

411.3131/3–552

Memorandum by the Secretary of State[1]

SECRET [WASHINGTON,] March 5, 1952.

REPORT ON NSC MEETING[2]

Item 4. National Security Interest in Successful Trade Agreement Negotiations With Venezuela

The President said that he assumed everybody had read the recommendation from the State Department,[3] that he concurred in it fully and if there was no objection to it, it would not be necessary for me to present the matter in detail. Everyone expressed agreement and the paper was adopted. The only important observation was made by General Smith, who said he could not underline too strongly the importance of the State Department's recommendation, and hoped that it would be followed through vigorously.

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[1] Secretary Acheson is indicated as the drafting officer on the source text, but the memorandum is initialed by Special Assistant to the Secretary Lucius D. Battle; apparently circulated to Deputy Under Secretary of State Matthews, Counselor of the Department Bohlen, Assistant Secretary Miller, and Assistant Secretary of State for Economic Affairs Thorp.

[2] Reference is to the 113th meeting of the NSC, held Mar. 5, 1952; a memorandum of discussion at this meeting is contained in Truman Library, Truman papers, PSF–Subject file.

[3] *Supra.*

After the meeting, General Smith and I talked to Mr. Lay to see whether, in the absence of a full discussion, it was fully understood that this meant that, if necessary, we could go below the peril point recommendations. Mr. Lay said that the President understood this and had said to him that we would have to do whatever was necessary. Both he and General Smith agreed to follow it through with the President, and if I see him tomorrow, I shall mention it again.

The other papers were received for information.

The President indicated to us that he hoped to be able to leave on Friday, but could not be sure until the last moment.

411.3131/3-652

Memorandum of Telephone Conversation, by the Secretary of State[1]

TOP SECRET [WASHINGTON,] March 6, 1952.

[Participants:] Secretary Lovett
Secretary Acheson

Mr. Lovett telephoned the Secretary and urged that the Committee working on Venezuela Trade Agreement negotiations should not only get to work terribly fast but that they should not be in the position of "representing" any other "American commercial" interests. In other words, they should not work for *quid pro quos*. The Secretary said this might be difficult because the Committee was trying to work out an agreement which will stand on its own feet.

Mr. Lovett said he did not think it was possible in this case to work out an agreement with Venezuela that would stand on its own feet and at the same time accomplish the overriding objectives which we have toward the new steel production and oil. These are so important to us that they must override all other considerations, and he did not think there were any other considerations, not excluding coal, that should be allowed to interfere with or confuse the main objectives.

The Secretary said he would talk with the people who were working on the matter. He also said that the President understood the problem, was expecting a recommendation, and would approve it when received.

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[1] Personal Assistant to the Secretary Barbara Evans is indicated as the drafting officer on the source text, but the memorandum is initialed by Mr. Battle, apparently circulated to Assistant Secretaries Thorp and Miller.

411.3131/3-1752

Memorandum by the Secretary of State to the President[1]

SECRET WASHINGTON, March 14, 1952.

Subject: Recommendations of the Interdepartmental Committee on Trade Agreements with respect to negotiations with Venezuela of a supplementary trade agreement.

There are attached recommendations of the Interdepartmental Committee on Trade Agreements with respect to negotiations with Venezuela of a trade agreement supplementary to the existing agreement which was signed on November 6, 1939.

The recommendations are in two parts. Under the first recommendation, your approval is sought for offers of duty concessions by the United States to Venezuela, and for requests of duty concessions from Venezuela to the United States, on the assumption that Venezuela will agree to negotiate on the basis of an offer by the United States of 10½ cents per barrel on all imports of crude petroleum, distillate fuel oil, and residual fuel oil. The rate of 10½ cents per barrel is for practical purposes in accordance with the "peril point" findings of the Tariff Commission.

In view of the probability that Venezuela will refuse to negotiate on the basis of 10½ cents per barrel, the Committee is also asking, under its second recommendation, for authority to reduce the duty below the peril point findings of the Tariff Commission on certain grades of these products. The authority requested under this second recommendation will not be used until serious efforts have been made to persuade the Venezuelans to negotiate on the 10½ cent per barrel basis, and such efforts have clearly failed.

The difficulties which have arisen in connection with the preparation for the negotiations with Venezuela under procedure set up under the Trade Agreements Extension Act of 1951 have already been discussed at the meeting of the National Security Council on March 6 [5], 1952. The circumstances surrounding this problem provide a clear illustration of the adverse effects on the trade agreements program of the peril point procedure which was set up by Congress in the Trade Agreements Extension Act of 1951. In my opinion, this procedure is both cumbersome and unnecessary to provide adequate safeguards to domestic industry.

I recommend that the recommendations of the Committee be approved.

DEAN ACHESON

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[1] Drafted by Mr. Corse.

[Annex]

Memorandum by the Chairman of the Interdepartmental Committee on Trade Agreements (Corse) to the President[2]

SECRET WASHINGTON, March 14, 1952.

Subject: United States Offers to and Requests of Venezuela in the Negotiation of Supplementary Trade Agreement with that Country.

On August 29, 1951 you approved negotiations with Venezuela for the purpose of arriving at a trade agreement supplementary to the existing agreement, which was signed on November 6, 1939. Since that time, preparations have gone forward for the purpose of engaging in these negotiations. As part of that preparation, and in accordance with Section 3 of the Trade Agreements Extension Act of 1951, the Tariff Commission reported to you on December 27, 1951 its findings as to the limit below which concessions could not be granted without causing or threatening serious injury to the domestic industry producing like or directly competitive products (popularly known as the peril point findings).

The findings of the Tariff Commission were unanimous except for a group of petroleum products.* Such petroleum products make up 90 percent of Venezuela's exports to the United States, and a concession on them is a *sine qua non* to a supplementary agreement with Venezuela.

In their report on this group of petroleum products (for convenience, hereinafter described as Venezuelan oil), three of the Commissioners found that the peril point was the existing tariff quota arrangement (10½ cents per barrel or ¼ cents per gallon on a quantity equal to 5 percent of the total quantity of crude petroleum processed in refineries in continental United States during the preceding calendar year, and 21 cents per barrel on imports in excess of this quantity).† The other three Commissioners found that a rate of 10½ cents per barrel on all imports would not result in serious injury being caused or threatened to the domestic industry. While one or more of the three Tariff Commissioners who found against the reduction of the existing tariff treatment felt that serious injury might be the immediate result of any such reduction, the principal point of difference betwen the two groups of Commissioners was the degree to which a threat of serious injury arising out of certain future contingencies was imminent or probable. Among the future contingencies weighed by the Commissioners were (1) cessation of the war in Korea, (2) return of Iranian oil to the world supply, (3) curtailment of general mobilization programs, especially in the United States, and (4) a recession in the United States. For practical purposes, the peril point may be considered as 10½ cents per barrel on all imports.

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[2] Drafted by Carl Corse.

* Crude petroleum, topped crude petroleum, residual fuel oil and distillate fuel oil. [Footnote in the source text.]

† See Annex A for a history of the tariff treatment of these products. [Footnote in the source text. Annex A is not printed.]

Fairly conclusive evidence exists that the Venezuelan Government will not accept an offer of 10½ cents on all imports. Venezuelan high officials have indicated, in the strongest possible terms, that they will break off negotiations of the supplementary agreement, unless a concession going below the level of 10½ cents is offered, and that they will then proceed to terminate the existing trade agreement.

Faced with these circumstances, the Interdepartmental Committee on Trade Agreements, after the fullest consideration, asks that you approve the following two recommendations. In making these recommendations the Committee took full account of the statement made by you that the Trade Agreements Act would not be used to endanger domestic industry.

(1) Offers by the United States which are described in Annex B,[3] and the requests of Venezuela by the United States, which are described in Annex C.[3] These offers and requests were prepared on the basis of an offer of 10½ cents on Venezuelan oil.‡

(2) An offer going below 10½ cents on imports of certain grades of Venezuelan oil,§ other grades to be subject to the 10½ cent rate. Such authorization will be used only after serious efforts have failed to persuade the Venezuelans to negotiate on the basis of an offer of 10½ cents on all Venezuelan oil, and they have officially indicated their determination to terminate the existing trade agreement. The grant by the United States of such a concession would be made dependent upon obtaining concessions from Venezuela of widespread benefit to American exporters and of value commensurate to the value of concessions granted by the United States.

Recommendation 1:

None of the offers for which approval is requested in Recommendation 1 are in excess of the respective peril points. They consist of reductions in the existing import tax on crude petroleum, topped crude petroleum, gas oil, distillate fuel oil, residual fuel oil, kerosene and petroleum liquid asphalt. Bindings of existing tariffs would be offered on pig iron, granular or sponge iron, gasoline, naphtha, unfinished oils except topped crude petroleum, lubricating oils, paraffin, and paraffin wax. Bindings of existing duty-free entry would be offered on iron ore and solid petroleum asphalt. The trade value of imports (direct and indirect) from Venezuela in 1951 of these products are given in Annex D.[4] Although the petroleum products listed make up over 90 percent of the total value of present imports from Venezuela, it is expected that with the development of the iron ore resources of Venezuela, the concessions on iron ore, sponge iron and pig iron will be of increasing importance. The recommendation of the Trade Agreements Committee (the representative of the Mutual Security Agency being absent and not voting) is unanimous with regard to these offers.

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[3] Not printed.

‡ Annex C also includes the additional requests which will be made of Venezuela if it is found essential to utilize the authority asked for in Recommendation 2. [Footnote in the source text.]

§ A rate of 5¼ cents per barrel on all imports of crude petroleum, distillate fuel oil and residual fuel oil (for technical reasons topped crude is excluded) of less than 25° API (American Petroleum Institute rating), a rate of 10½ cents per barrel on all imports of these products of 25° or greater API. [Footnote in the source text.]

The requests which the United States would make in return for an offer of 10½ cents on Venezuelan oil cover a wide range of products of interest to American export industries located in 37 States. Reductions in duty will be requested on such important products as iron and steel manufactures, fruits and vegetables, fruit juices, frozen chickens, eggs, vegetable oils, animal feeds, cheese, certain cotton and rayon textiles, certain paper and glass products, leather goods, whiskey, beverage syrups, and certain rubber manufactures.

Bindings of existing rates of duty will be requested on wheat flour, modified milk, rice, shoes, tinplate, aluminum manufactures, automobile chassis, agricultural implements, industrial machinery, office machines, motion picture films, biologicals and anti-biotics, and other pharmaceuticals and chemical products. Figures of exports from the United States to Venezuela of these request items are given in Annex D.

As part of the negotiations, Venezuela wishes to withdraw or modify upward certain concessions which are already in the existing agreement. They are prepared to substitute equivalent concessions for these withdrawals or modifications. The requests which are submitted for your approval include the response to Venezuelan requests on these withdrawal or modification items. For some items we are agreeing to their request, for others we are making counter-proposals which only in part meet the Venezuelan requests. Some of these counter-proposals, such as the one on canned salmon and sardines and wheat flour will undoubtedly prove unacceptable in the first instance to the Venezuelans. Furthermore, some of our requests on other items will probably not be granted by Venezuela. It is contemplated, therefore, that the concessions which Venezuela will finally agree to grant will be somewhat changed in detail from the list of requests in Annex C. Your approval of the entire results of the negotiations including the specific concessions offered by Venezuela will be requested before the United States accepts them definitively.

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[4] Not printed.

Recommendation 2:

There are two formal dissents, those of the Tariff Commission and Department of Labor members, to Recommendation 2 of the Committee. Written dissent of the Tariff Commission member,[5] in accordance with Executive Order No. 10082, is attached[6] hereto immediately following this memorandum. The Department of Labor member concurs in this statement of dissent of the Tariff Commission member. One agency, the Mutual Security Agency, was not represented at the meeting of the Committee when this recommendation was approved. The other six agencies represented on the Committee voted in favor of the recommendation.

The Committee members were unanimous in believing that every effort should be made to persuade the Venezuelans that it would be in their interest to negotiate on the basis of a 10½ cent offer on the crucial petroleum products, and that the authority to exceed a peril point should not be utilized unless it was absolutely essential in order to obtain an agreement. Before arriving at their decision, the various consequences which might result from action by the President to exceed a peril point were carefully weighed against the other national interests, including the security interest, which might be jeopardized by failure to conclude an agreement with Venezuela because of unwillingness on the part of the United States to exceed a peril point.

Among the possible consequences which might result from action which exceeds the peril point are (1) extreme congressional criticism which might take the form of a congressional Act withdrawing the authority of the President to give effect to the oil concessions negotiated with Venezuela under the Trade Agreements Act, as amended; (2) the enactment by Congress of restrictive legislation on petroleum imports either through a separate bill or through the inclusion of additional crippling amendments when the Trade Agreements Act comes up for consideration next year (it will be recalled that efforts to restrict imports of petroleum products to 5 percent of domestic production failed passage by the Senate by only one vote in 1949); and (3) crippling amendments of a general nature to the Trade Agreements Act which would further reduce the effectiveness of the program.

A particularly difficult situation which will also arise if the peril point on Venezuelan oil is exceeded is that the report of the Tariff Commission on these products must under the Trade Agreements Extension Act of 1951 be submitted to the Ways and Means and Finance Committees with the result that they undoubtedly will become public. Opponents of the trade agreements program will be able to quote statements from the report which will carry a false sense of factual objectivity, when actually the statements reflect personal judgments. For example, two of the three Commissioners who found that the existing tariff quota arrangement was the peril point stated categorically, "Our report clearly shows that we based our findings and recommendations on what actually did happen in 1949, what is happening right now, and what is most likely, if not quite certain, to happen again in the near future unless the present taxes and quotas are retained . . .".[||] Actually, it is extremely doubtful that the domestic oil industry suffered any serious injury in 1949 as result of imports. As a matter of record, the Tariff Commission, by a vote of 4 to 2 on May 3, 1949, decided that the situation was not serious enough even to order an investigation in connection with an application on February 15, 1949, by the independent oil producers for escape clause action. The present situation to which the two Commissioners referred in the quotation in the context of possible serious injury was a temporary cutback of "allowables" (the amount of oil that is permitted to be produced within a given month) in Texas in November and December, 1951, and January 1, 1952. Prior to these months the Texas conservation authorities had indicated to the Department of State that Texas production was in excess of sound conservation practice and that they were permitting such production only because of the Iranian situation. Texas allowables were increased in February and reached an all time peak in March 1952.

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[5] Lynn R. Edminster.

[6] Not printed.

It is also unfortunate that the Tariff Commissioners engaged in a controversy with regard to their record on escape clause actions. This controversy was generally irrelevant to the problem at hand, but would probably become public as part of the report.

On the other hand, inability to arrive at an agreement with Venezuela because of unwillingness to exceed a peril point finding by the Tariff Commission would bring in jeopardy certain national interests, including security interests, of the United States. The Venezuelan market is of importance to United States exporters of a large range of products. It is one of the few markets where United States exports are not limited because of balance-of-payments difficulties. During the hearings held by the Committee for Reciprocity Information on this negotiation over 160 United States export interests either filed briefs or presented oral testimony. These exporters came from many sections of the United States. In general, the request was that their market in Venezuela be protected and stabilized both by the obtaining of tariff concessions from Venezuela and by the granting of concessions on Venezuela oil. Since it is probable that the

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[||] Page 2, Supplementary Statement by Commissioners Brossard and Gregg, dated January 10, 1952. [Footnote in the source text.]

Venezuelans will terminate the existing trade agreement if negotiations of a supplementary agreement are unsuccessful, they would be unprotected against increases in the Venezuelan tariff treatment of their products. At present there is strong pressure being put on the Venezuelan Government to increase the tariff protection for many domestic Venezuelan industries.

The security interests in the United States in arriving at an agreement with Venezuela are of such importance that the Department of State, following a recommendation by the Trade Agreements Committee, asked the judgment of the National Security Council in order that such interests might properly be weighed by you in making your decision with respect to tariff concessions on petroleum. The recommendations which were adopted by the Security Council are given in Annex E.[7] Among the security considerations are (1) the possibility that the Venezuelans will delay or limit the granting of new concessions for petroleum exploration and production which are required in order to have sufficient resources in the Western Hemisphere in event of total mobilization, (2) the existing relationship between the Venezuelan Government and the oil companies is being used to provide a pattern for stabilizing relations between oil companies and governments in other parts of the world—the Venezuelan Government may change such relationship in order to recover loss of revenue resulting from an increase in United States tariffs on petroleum, (3) the general strengthening of nationalistic elements advocating nationalization of the oil industry in Venezuela, and (4) the general weakening of relations between Venezuela and the United States which are important because of Venezuela's strategic location and possession of certain strategic resources such as iron ore.

The decision of the Committee with regard to Recommendation 2 was not arrived at easily. While all agencies recognized fully the security importance of the domestic oil industry, no agency except the Tariff Commission felt that a concession going below a peril point on the controversial petroleum items would cause or threaten serious injury to the domestic industry. While acknowledging that a concession below the peril point might be granted in a fashion which would not cause or threaten serious injury to the domestic industry, the Department of Labor joined the Tariff Commission in finding (a) that it was not established that the absence of authority to pierce the peril point would in fact endanger the outcome of the negotiations, or (b) that failure would likely be followed by developments significantly adverse to our national security and other interests. The decision of the members of other agencies rested basically on whether the domestic risks which, to a large extent are political, were greater or less than the possible jeopardy of the national interest of the United States, including particularly the security interest.

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[7] Not printed.

The concession which it is recommended be offered, if essential to reach agreement with Venezuela, is one which, without quota limitation, goes below the peril point of 10½ cents only on imports of crude petroleum, distillate fuel oil and residual fuel oil of gravity less than 25 degrees API (American Petroleum Institute rating). On imports of products of gravity 25 degrees or higher API, the offer would be 10½ cents, without quota. From 25 to 30 percent of the total imports of oil from Venezuela are of gravity less than 25 degrees API. The lower than 10½ cent rate would, therefore, apply primarily to residual fuel oil and a small part of crude oil imports. Practically all of the crude oil production in the United States is of a gravity 25 degrees or higher. In recent years, there has been a definite decrease in the percentage of residual fuel oil recovered from domestic and foreign crude oils processed at United States refineries and the deficiency in residual fuel oil supply has been met by imports. Accordingly, the proposed concession below the peril point would not have a materially direct effect on the domestic oil producing industry, and would tend to equalize the competitive effect of imported oil on domestic refineries.

Its principal effect would be with respect to the domestic bituminous coal industry which has always been opposed to imports. Here, however, evidence exists that the impact would be small. According to evidence submitted during the hearings before the Committee for Reciprocity Information, residual fuel oil is competitive with bituminous coal mainly in those Atlantic Coast utilities producing gas and electricity which are equipped to burn either fuel. In this industry, the use of bituminous coal has increased by almost 40 million tons between 1940 and 1950, whereas the use of residual fuel oil increased only 15 million tons (in bituminous coal equivalents). The use of all other sources of energy (e.g. gas) by this industry increased during the same period by over 50 million tons (bituminous coal equivalents). In all other uses where residual fuel oil and bituminous coal might come into competition as a source of energy, such as in railroads, space heating and miscellaneous industrial uses, the situation either is the same as occurred in the utilities field or is that any decrease in use of bituminous coal is primarily because of increased use of sources of energy other than residual fuel oil. Despite the economic fact that direct competition of residual fuel oil with bituminous coal is much smaller than would be indicated by the total imports of residual fuel oil, and that the difficulties of the bituminous coal industry are not due primarily to such competition, there probably would be protests that the concession recommended by the Committee was aimed directly at the coal industry. In answer to these protests, it would be necessary to point out the economic facts in justification of the position that no serious injury is being caused or threatened to the domestic bituminous coal industry by the concession.

It is the belief of certain members of the Committee who are the best qualified to judge, that a concession based on the above degrees of gravity would be more acceptable to the domestic petroleum industry than other possible types of concessions which would go below the peril point.

As is customary, the final results of the negotiations, both the concessions granted and obtained by the United States will be subject to approval by you before signature of the agreement.

Your approval of the two recommendations by the Interdepartmental Committee on Trade Agreements is hereby requested.[8]

CARL D. CORSE

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[8] President Truman approved these recommendations on Mar. 17, 1952.

Editorial Note

On April 18, 1952, delegations representing the United States and Venezuela initiated a series of meetings at Caracas for the purpose of negotiating revision of the Reciprocal Trade Agreement in effect between the two countries since 1939. For a list of the United States negotiators, see the press release printed in Department of State *Bulletin*, April 21, 1952, page 631. Periodic progress reports on the negotiations were transmitted to the Department of State as Embassy despatches; these are in Department of State file 411.3131 for 1952. Additional pertinent documentation is contained in TAC files, lot 59 D 599, FRC 65 A 987, item 3, boxes 41–42.

411.3131/6–2352

Memorandum by the Head of the United States Negotiating Team (Rubottom) to the Chairman of the Interdepartmental Committee on Trade Agreements (Corse)

SECRET [WASHINGTON,] June 23, 1952.

Subject: Revision of Reciprocal Trade Agreement between the Governments of the United States and Venezuela—Recommendation.

Problem

To determine whether there exists, from the viewpoint of the United States, a satisfactory basis for agreement with Venezuela on the revision of the 1939 Reciprocal Trade Agreement.

Discussion

In order to analyze the status of the trade agreement negotiations which have been in progress in Caracas for the past nine weeks, it is necessary to examine the position of both Governments at the start of the negotiations. The United States, for valid and plausible reasons, decided to make an offer on oil of 10½¢ per barrel, along with certain other offers of secondary importance except possibly the offer to bind iron ore free and pig iron at the present low rate. The United States request list, based on that offer, consisted of a large list of items including a number which had already been described by the Venezuelans as "sensitive" and "critical". In fact, the Venezuelans had already officially informed the United States that it did not wish to consider a considerable list of items in those cateogories.

Venezuela, in turn, submitted an offer list to the United States which, while it exceeded the United States requests in certain respects, especially in the field of consumer durables, notably lacked any of the "sensitive" items. This offer list was based on a Venezuelan request for an oil duty of 5¼¢ per barrel, without restriction.

At first glance, the disparity in the positions of the two Governments in the opening phase of the negotiations might seem to be a normal situation from which the two Teams would proceed to bargain to a compromise position. However, at this point the firm position taken by the Venezuelan Government prior to the start of the negotiations should be recalled. In the fall of 1950, Venezuela was on the verge of terminating the trade agreement, as is well known to the Committee; at that moment it might have been possible to reach agreement with Venezuela on the basis of a flat 10½¢ oil offer, but the passage of time apparently made this impossible. Certainly during the months before the negotiations began the Venezuelan position had been made clear that it had to have oil treatment "better than Mexico" if the agreement was to be revised, or even preserved. There was never the slightest deviation from that position, and three days before the negotiations began the Venezuelans informed the Ambassador that, unless we were prepared to make an oil offer of better than a flat 10½¢ per barrel, no basis for the negotiations would exist.

Notwithstanding this statement, the Venezuelans did not refuse to carry on the negotiations after being apprised of the opening oil offer of 10½¢ per barrel made by the United States, and it eventually agreed to a preliminary discussion of the United States request list. However, the Venezuelans stated unequivocally that they would proceed with the discussion of the request list provided they were not compromised in any way with respect to oil and again insisted that they would have to have treatment "better than Mexico" before any agreement could be reached. They undoubtedly were moved in part by a cooperative attitude, which was evident throughout the negotiations, but the United States Team believes that the overriding factor in the Venezuelan tactics at this point was their knowledge that the United States eventually would be prepared to make a better oil offer.

While it would be a mistake to underestimate the importance of this "leak" and its effect on the early stages of the negotiations, it probably would be going too far to infer that the Venezuelans would have accepted the 10½¢ offer had they not known of the possible supplementary offer, in view of the background already outlined above. There was never any indication that the Venezuelans were persuaded by the United States arguments to consider seriously the 10½¢ offer. The economic arguments in support of the offer were rejected out of hand, in spite of the figures which supported them. The political arguments apparently registered on the Venezuelans and may have at least paved the way for their ultimate acceptance of the second oil offer which, they later alleged, did not even fully meet their aspirations.

The United States Team never accepted as valid the Venezuelan position either in formal meetings or in informal discussions. It presented working papers, and supported those with more detailed oral discussions, refuting the Venezuelan arguments, and defending as strongly as the circumstances permitted the merits of the first United States oil offer. But it is inescapable that the Venezuelans not only never intended to consider the first United States oil offer, but that, as well, they did not even place it in the category of an offer. If that is recognized, it would follow that the Venezuelans did not truly begin to bargain with the United States until they got the second oil offer. The history of the negotiations up to this point seems to bear this out.

With this background in mind, the present negotiating posture of the United States is not as unfavorable as it might first appear to be. In one respect, at least, the United States has been successful, i.e., in the defense of its second oil offer, the gravity formula. This formula, tailor-made to be attractive to Venezuela without giving her everything she wanted and, at the same time, designed to cause the United States the least difficulty at home, has been accepted unequivocally by Venezuela. The Foreign Minister's statement to Ambassador Warren and Mr. Rubottom on June 17 confirmed earlier statements by the Head of the Venezuelan Negotiating Team, Dr. Reyna, that the Venezuelan tactics were not designed to obtain a better oil offer. The Committee thus may consider that one of the thorniest aspects of the trade agreement revision has been settled and turn its attention to Schedule I.

Looking at Schedule I from its most unfavorable view, it must be admitted that it has sizable gaps in agricultural items, textiles, and shoes. It is not as satisfactory as the United States had hoped to achieve in the fields of paints, glass, and paper. In spite of every effort made by the United States Team to obtain Venezuelan cooperation in searching for items in those categories which would not compete significantly with local industries, the Venezuelans demurred. They stated at the beginning that they could not give concessions in the so-called "sensitive" items since they would bring on political problems at home and they have continued until now to stand on that position. It is apparent that the highest Government officials have determined that a revised agreement will be satisfactory only if it does not create extreme difficulties at home. Several informed sources have stated that the strongest support for the present Venezuelan Government is coming from the right, which, of course, includes the industrialists and others who are seeking protection. While the negotiations were in progress, it was apparent that the protectionist group was applying steady pressure on the Government. The newspapers regularly reported statements from representatives of the Chamber of Industries and other similar groups following their visits on the Foreign Minister and the Minister of Economic Development.

During the waiting period prior to the acceptance by the Venezuelans of the United States supplementary oil offer and the transmittal of their second offer list, the United States Team, through contact with Dr. Reyna and his colleagues, became aware of a shift in Venezuelan emphasis from oil to Schedule I, a move which seemed to come from the highest circles in the Government. This may have been due in part to the realization that Venezuela would find it difficult, if not impossible, to obtain the flat 5¼¢ oil duty to which it aspired; it may also be attributed to the realization that they had gone too far in their first offer list, especially after consulting with some of the interested industrial and manufacturing groups. It was at this point that the Team recognized and reported to the TAC that the Venezuelan negotiators apparently had lost some of their discretionary authority and were having to check with the Foreign Minister on almost every step taken.

At this point the Committee should consider Schedule I from its more favorable aspects. Starting with the agricultural items, while Venezuela is unwilling to include as many in the agreement as the United States requested, there were assurances during the negotiations that Venezuela did not intend to start raising duties promiscuously on these items. Venezuela, in many cases with the outright encouragement and technical assistance of the United States, aspires to self-sufficiency in food production some day. The Government recognizes that this day is far in the future, and it is quite probable that the United States Team could get agreement on a statement in the agreed minutes indicating Venezuela's intentions with respect to continuing some agricultural imports from the United States at present low duties. The

Venezuelan Government is very much aware of the consumer's problem and does not intend to provide protection on foodstuffs at a prohibitive cost to the consumer.

Here it is pertinent to explain that the Venezuelan duties are not mandatory in their application, instead are permissive. For example, the duty on eggs is one bolivar a dozen, and this rate is applied in Maracaibo, whereas eggs enter free at Caracas. The Venezuelans have pointed out that in cases where there is less domestic production on agricultural or other products than anticipated, duties may be lowered to permit imports to fill the gap.

In the field of consumer durables the Venezuelan concessions are valuable. Whereas it would be possible to build assembly plants for such items as refrigerators, radios, and television sets, which would in turn effectively freeze out such valuable United States export products, the Venezuelans have now offered us a reduced duty on refrigerators and have offered to bind the low effective duty on radios. They are still studying the tariff classification on television sets, and it may ultimately be possible to include that item in the agreement. Besides these items, there are also many other consumer durables on which we have been offered very low rates, see attached lists.[1]

Another result of the negotiations which would redound favorably to the United States in the long run is the large number of trade agreement bindings and new bindings. These are all the more valuable when one considers the progressiveness of the Venezuelans and the relatively virgin field which that country offers for capital investment.

Not to be overlooked also is the fact that quite a number of those industries seeking protection in Venezuela are owned by United States companies, e.g., National Biscuit Company, General Tire and Rubber Company, United States Rubber Company, Celanese Corporation. The Committee is fully informed of the position taken by the Celanese Corporation in recent correspondence that it would not have considered investing approximately five million dollars in Venezuela had it contemplated that the United States Government might request a tariff concession for imported textiles which would compete with the production of its new plant.

The United States Team understands the objectives of the trade agreement procedures which have been developed over the past eighteen years. It recognizes that the very nature of a reciprocal trade agreement, which, as far as the United States is concerned, is based on acts of Congress, calls for a treaty which should, as nearly as possible, stand on its own feet from an economic and commercial standpoint. From the beginning, the Team has sought such an agreement with

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[1] None printed.

Venezuela and, despite some qualitative shortcomings, it now believes that the respective offers of the two countries are nearly in balance and that an agreement with more or less equal trade coverage on both sides is possible. The detailed tables are attached to this document, but the attention of the Committee is invited to the following summary:

Trade Coverage Value of Venezuelan Offers and Withdrawals

		($1000)
1.	Duty Bindings	110,884
2.	Free Bindings	13,574
3.	Duty Reductions	48,234
4.	Ceiling Bindings (credited for ½ value)	12,324
	Total	185.016
5.	Minus "Withdrawals"	8,501
	Total Net Value of Venezuelan Offers	176,515
	Total Net Value of United States Offers	178,000

It should be borne in mind that the United States exports to Venezuela in 1950, the year used for arriving at the above figures, were the lowest in the last five years, which tends to discount the normal coverage of the Venezuelan offers.

There are, of course, other broad considerations which have unusual importance in respect of any negotiation between the United States and Venezuela. They can be discussed in another paper if appropriate.

The negotiations have now reached a critical stage. It is known that the Venezuelans hoped to finish the negotiations by July 1, although they undoubtedly are prepared to work beyond that date in the interest of a successful revision of the agreement. The Foreign Minister, on June 17, told Ambassador Warren and Mr. Rubottom that their third offer list, transmitted that day, was the "best" offer that Venezuela could make. Dr. Reyna, in the memorandum[2] which accompanied the list, expressed regret that his Government would not be able to offer more than what was included in the list.

The Team is inclined to accept the Venezuelan statement that they have made their "best" offers, although it does not rule out the possibility of obtaining a little bit more in Venezuelan concessions. Any further requests of the Venezuelans, however, should be very carefully examined and should be made realistically with the full understanding that they may be rejected.

If the Committee approves the basis for agreement herein outlined, the Team believes it possible to bring the negotiations to a prompt and successful conclusion. The Venezuelans probably will come to Washington to discuss the General Provisions and any remaining matters, although this is not definite.

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[2] Not identified.

Recommendation

1. That the Committee authorize the Negotiating Team to indicate to the Venezuelan negotiators that a basis for agreement exists.

2. That the Team undertake to conclude the negotiations with the present United States oil offer rather than to seek greater concessions by an improved oil offer.

3. That any further concessions requested of the Venezuelans be limited to a very few items, possibly two or three, concerning which there is reasonable hope that they will accede.

4. That the Team be authorized at the same time that the Venezuelans are informed that a basis for agreement exists, to invite the Venezuelans to come to Washington for that phase of the negotiations which will take up the General Provisions, etc.

5. That the Venezuelans be informed that it is satisfactory to the United States for the actual signing of the agreement to take place in Caracas.[3]

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[3] No record of the action taken on these recommendations was found in Department of State files. Apparently, however, they were approved. The negotiations were transferred to Washington on July 16, and concluded on Aug. 8. Thereupon the two delegations submitted recommendations to their respective governments; see Acting Secretary of State Bruce's memorandum of Aug. 25, 1952, p. 1628.

INR–NIE files

National Intelligence Estimate[1]

SECRET [WASHINGTON,] July 31, 1952.
NIE–67

PROBABLE DEVELOPMENTS IN VENEZUELA[2]

THE PROBLEM

To estimate the current situation and probable future developments in Venezuela with particular reference to factors affecting the availability of strategic materials.

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[1] National Intelligence Estimates (NIE's) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of NIE's.

[2] A cover sheet, title sheet, and dissemination notice are not printed. A note on the title sheet reads as follows: "The intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff participated with the Central Intelligence Agency in the preparation of this estimate. All members of the Intelligence Advisory Committee concurred in this estimate on 24 July 1952."

CONCLUSIONS

1. Venezuela is ruled by a three-man Junta which derives its principal support from the armed forces. The Junta's strongest opponent is Accion Democratica, a leftist but non-Communist party now outlawed and operating underground. Accion Democratica actively seeks to discredit the regime and, given the opportunity, would not scruple to attempt its overthrow by force. Despite this threat, however, the Junta is probably capable of maintaining itself in power.

2. The outlawed Communist Party does not constitute by itself a threat to Venezuelan political stability and has been unable to form any firm alliance with the non-Communist opposition.

3. The Junta wishes to create a legitimate regime through elections and a constituent assembly, but is determined that its opponents shall not take over the government nor the armed forces lose their power to control Venezuela's political course. Hence it is unlikely that elections (if held) will be free, and the opposition may boycott them.

4. The economic condition of Venezuela is good, and is likely to remain so, mainly because of high world demand for oil and iron ore.

5. The oil companies have developed and maintained excellent relations with the government. There is no evidence that the present administration contemplates nationalization of the oil companies. No foreseeable political change in Venezuela would threaten the production and export of petroleum and iron ore.

6. The oil installations are vulnerable to sabotage. Present security measures are probably adequate to deal with sabotage by local elements with limited resources. Additional measures would be required to cope with a large-scale, concerted program of sabotage involving foreign as well as local elements, such as might be expected in the event of war.

7. Venezuela has generally supported US policies in the UN and OAS and has shown willingness to cooperate in Hemisphere defense. The Venezuelans conceive their proper role to be limited to defense of their own territory and strategic industries. They desire to develop military forces adequate for that purpose. They would be unlikely to consent to the stationing of foreign troops on Venezuelan soil.

DISCUSSION

Political

8. Venezuela is governed by a three-man Junta* which overthrew the regime of the Accion Democratica (AD) in November 1948. The Junta has supporters among conservative and wealthy businessmen, industrialists, large landowners, some government employees, and professional men. In general the support of these elements, which tend to place a higher value on order than on civil liberties, reflects satisfaction with a regime to which they have direct access. The Junta's main support, however, is furnished by the armed forces, especially the Army.

9. Upon taking power the Junta outlawed the Accion Democratica. The Junta has abrogated the 1947 constitution, censured political groups for voicing "intemperate" criticism of the Administration, arrested key political figures, and until very recently prevented or impeded opposition political rallies. Its attitude, however, has not been as arbitrary as that of the Gomez[3] dictatorship (1908–1935). The Junta has begun preparations for elections to a constituent assembly, and has insisted, against conservative opposition, on universal suffrage. It has tried to persuade voters that its policies are conceived in the best interests of the nation. But the Junta appears determined that its opponents shall not take over the government nor the armed forces lose their power to control Venezuela's political course.

10. The Junta has continued many of the progressive social and economic policies of preceding governments. These policies reflected the aspirations of the largely illiterate lower classes, especially organized labor, and of the small but expanding groups of businessmen, intellectuals, students, and professional men. The successive administrations between 1935 and 1948 did much to satisfy these groups. Accion Democratica in particular instituted a vigorous pro-labor policy, with numerous projects for improving health, sanitation, and education. It established direct popular elections and in general showed a respect for human rights unusual in Venezuela's history.

11. The Junta is opposed by most of the social groups which supported the immediately preceding regimes. Accion Democratica, despite its outlawry in 1948 and the imprisonment or exile of some of its most important leaders, is the Junta's most powerful adversary and still the most widely supported political party in the country. Led by an able group, whose members operate from exile and from underground, AD is seeking to create conditions which will lead to the overthrow of

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*The Junta is at present composed of Dr. Germán Suarez Flamerich, Col. Marcos Perez Jiménez, and Col. Luis Felipe Llovera Páez. [Footnote in the source text.]

[3] Juan Vicente Gómez.

the Junta. It carries on an active propaganda campaign, utilizing clandestine newspapers and radio transmitters, and it seeks international political and labor support.

12. The principal representative of international Communism in Venezuela is the regular Communist Party (PCV). Also active are a small dissident Communist party, the PRP (c),† which broke away from the PCV in 1944 in protest against PCV collaboration with non-Communists, and various groups of resident foreign Communists of which the most important is Spanish. Altogether the Communists in Venezuela number less than 20,000. Their capabilities are enhanced, however, by their influence in organized labor. In 1950, among 40,000 petroleum workers, some 6,000 belonged to Communist-led unions and in addition there were significant numbers of Communists in AD-led unions. At present, among organized workers in general, some 22 percent belong to Communist-led unions, as compared with 50 percent in pro-AD unions, 10 percent in minor opposition party unions, and 10 percent in Junta-approved unions.

13. In 1950 the Junta suppressed the PCV and dissolved its affiliated labor unions. The PRP(c), however, has enjoyed relative immunity. Even when, in June 1952, the Junta severed relations with the USSR and cracked down on Communists and Communist-front organizations, the PRP(c) was allowed to retain its status as a legal political party.

14. Before the overthrow of Accion Democratica in 1948 its leaders were becoming increasingly hostile to Communism, although they tolerated Communist activity as a counterbalance to that of right-wing, anti-AD groups. The line of demarcation between AD and Communist units in organized labor was gradually becoming sharper. Since the AD was suppressed local AD units have on occasion collaborated with the PCV in student and labor agitation. The national leadership of the AD, however, still realizes that Communist objectives differ from theirs and that full cooperation with the Communists would jeopardize the future of the AD. They differ sharply with Communist leaders in their views on national policy. For these reasons a united front between AD and the PCV has not developed and is unlikely to do so in the foreseeable future. The AD leaders have been able thus far to maintain a hold on their rank-and-file despite Communist efforts to win over AD adherents.

15. The principal remaining legal opposition to the Junta is COPEI,‡ a Christian socialist type party which was the chief (though never formidable) political opponent of the AD before 1948. COPEI has been outspoken in its demand for a return to constitutional government It

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† Partido Revolucionario del Proletariado (communista). [Footnote in the source text.]

‡ Comité Organización Politica Electoral Independiente. [Footnote in the source text.]

has some appeal to both organized labor and conservative elements interested in a restoration of civil liberties, and its strength is said to have grown since 1948. The only other legal opposition party of consequence is URD,§ a secular leftist group which has endeavored, without apparent success, to win over the popular followings of the two suppressed parties, AD and PCV. COPEI and URD are of potential importance, as legitimate, non-Communist means of expressing opposition to the Junta, but they do not now constitute an opposition strong enough to cause the Junta serious concern.

16. Accion Democratica, though suppressed, retains the largest political following in Venezuela. Future political developments therefore depend to a great extent on its capabilities and intentions. Through agitation, and at times even terrorism, the AD will seek to discredit the Junta or any Junta-created regime, to undermine its stability, and to bring it into conflict with other opposition groups and with liberal opinion at home and abroad. Given the opportunity, the AD would not scruple to overthrow the Junta by force, as it was itself overthrown. The AD, however, now lacks the all-important support of the military and without military support is incapable of organizing a successful revolution.

17. The Junta is capable of preventing an AD revolution and of maintaining itself in power so long as the Army remains united behind it. But it desires to install a regime that will be widely recognized as constitutional and will at the same time protect the special interests of the military and of their civilian allies. It is under mounting pressures from political and labor groups to hold elections. Restoration of full constitutional government will be a complex process, which the Junta can speed up or delay to suit its own political purposes. The Junta may so greatly limit political activity as to cause opposition parties to boycott the election. In such an event, the Junta might fail to gain from an election the prestige it desires at home and abroad. But it is also possible that the Junta might succeed in registering a large favorable vote, since it is the party in power and times are good.

18. The military will continue to be the keystone of government in Venezuela. There are personal rivalries among influential officers of the armed forces, and it is possible that these conflicting ambitions might lead to disturbance of the regime, with shifts of power between military groups and personages. We believe, however, that the Junta will be able to heal such rifts as develop within the armed forces, especially if it convinces the military that disunity offers AD new opportunities to undermine the stability of government.

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§ Unión Republicana Democrática. [Footnote in the source text.]

Economic

19. Petroleum accounts for over 95 percent of exports, 97 percent of foreign exchange receipts, and more than 65 percent of government revenue of Venezuela. At the beginning of June output was at the rate of 680 million barrels per annum, which is near maximum capacity without the development of new concessions. The Junta, like the AD before it, has not granted new oil concessions, although recently it has encouraged oil companies to bid for them. It has maintained cordial relations with the companies, which have experienced fewer operational difficulties than at any time since the Gomez regime, perhaps because many of the more serious problems were adjusted during the AD administration.

20. There is no evidence that the present administration is thinking of nationalizing the oil industry. Opposition parties have proposed, from time to time, the eventual nationalization of the industry, presumably after Venezuelans have been adequately trained to take over. Nationalization remains a potential possibility, but is not a present problem. The lack of outcry for nationalization is attributable to the satisfactory arrangements between the government and the oil companies, and to the good public relations established by the companies.

21. Known iron ore reserves in Venezuela are estimated at 2 billion tons, assaying about 60 percent iron. Their development is now in its early stages: exports began in 1951. Current output is at the rate of approximately 2,000,000 tons per annum and is expected to rise to some 13,000,000 tons by 1960. All exports of iron ore go to the United States.

22. Venezuela's general industrial and agricultural development has been slow. Partly because of inadequate internal communications, a large segment of the population lives at a subsistence level. Oil exports provide ample foreign exchange to pay for imports and until recently there has been little incentive to develop local industries. Venezuelan capitalists tend to invest only in domestic real estate or in enterprises abroad. To redress this situation AD adopted the policy of using the government's oil revenues to build up a more diversified economy. The Junta has maintained this policy: government funds are being used to expand agricultural and industrial production and for extensive public works.

23. The present economic outlook for Venezuela is bright. US demand for low gravity oils, which are in short supply and come chiefly from Venezuela, continues to expand. Venezuela's competitive position has been strengthened by developments which have brought oil production costs in the Middle East more in line with those in

Venezuela. The country has virtually no foreign debt, a very small internal debt, no budgetary deficits, and a gold reserve of some $336 million. The export of iron ore promises well for the future.

Military

24. Apart from their political role, the military forces of Venezuela have chiefly performed the function of maintaining internal order. The Army and the National Guard (a professional security force) have been the most politically powerful elements in Venezuela's military establishment. There is little evidence that either the Navy or the Air Force will challenge their position in the near future. The officer cadre of the Army comes for the most part from the upper classes and is generally conservative. The rank-and-file are short-term conscripts, mostly from the lower strata of society, and are therefore more susceptible to propaganda directed against the present regime. The officers, however, can almost certainly control the rank-and-file.

25. The Venezuelan Army, Navy, and Air Force are small in comparison with those of other South American nations. The combined strength of the armed forces (including 4,000 security troops) totals roughly 18,000 officers and enlisted men. All branches are deficient in logistics and equipment. None has significant military capabilities, though together they could probably defend Venezuela from attacks by neighboring countries.

26. Venezuela is dependent upon foreign sources for virtually all of its military equipment and the nation's favorable financial position enables it to pay for its requirements. Although a preference exists for US equipment, particularly of the heavier varieties, the military have bought material in Europe when supplies have been unobtainable in the US. Destroyers and jet aircraft have been ordered from the UK and some jets have been received. Semi-automatic rifles have been procured from Belgium and antiaircraft guns from Sweden.

27. Venezuelan military leaders are irritated because the US does not sell them latest models of the best equipment. Nevertheless, they have professed willingness to cooperate in Hemisphere defense arrangements. They insist, however, that Venezuela's role should be limited to the strengthening of its own defenses in order to assure the availability of strategic materials. Military activity in defense, therefore, would probably not extend beyond protection of oil and iron ore installations, coastal defense, and anti-submarine patrols.

Strategic Considerations

28. Venezuelan oil is of prime strategic importance to the Western Powers. Venezuela is second only to the United States in petroleum production and is the world's largest single exporter. In present circumstances Venezuelan oil is in high demand in the United States and

Western Europe. In the event of war its continued availability would be essential. The vulnerable location of Middle Eastern oil resources and the relative security of Venezuela serve to increase strategic reliance on this resource.

29. Venezuelan oil exports (including re-exports of refined products from Aruba and Curacao) normally go to Western countries. In 1951 these exports amounted to 588 million barrels, of which about 40 percent went to the United States, 25 percent to Western Europe, and most of the remainder to Latin America. So far as is known, none was shipped to Soviet Bloc countries.

30. The second strategic commodity supplied by Venezuela is high-grade iron ore, all of which goes to the United States. In 1951 the US received from Venezuela nearly 700,000 metric tons, roughly 6 percent of US iron ore imports. Total shipments are expected to reach at least 2 million tons in 1952, 5 million in 1955, and 13 million in 1960. Iron ore transportation is hampered by the remote location of deposits in the Guyana highlands and by transshipment and dredging problems. From the El Pao (Bethlehem Steel) deposits, ore must be carried out by rail to water transportation, and there is an additional transfer from river to ocean-going bottoms. A rail and water route from the Cerro Bolivar (US Steel) deposits is still under development.

31. The oil industry in Venezuela has many features vulnerable to sabotage. Output must be channelled through a few major outlets and processing points. The Lagunillas dike, the narrow Maracaibo channel, and the Maturin bar in the San Juan River all represent points of vulnerability. Underwater operations, which are required for many wells in the Maracaibo area, and the submarine pipelines, especially those which transport oil and water to the barren Paraguana Peninsula, present special protection problems. The system of power plants is of key significance from a sabotage viewpoint. Pumping stations, refineries, storage facilities, and overland pipelines would also be remunerative targets. The effects of sabotage upon production would be increased by the fact that nearly all equipment must be imported. The danger of sabotage is increased by the presence of Communist workers in the oil fields and tanker fleet.

32. Measures to protect petroleum installations have been taken both by the government and by the companies. The former has supplied armed protection (principally by security troops), but the extent of the oil fields causes such units to be widely dispersed. Some assistance is also rendered by the National Service of Investigation, though this Service is generally limited to surveillance of subversive activities in the petroleum industry. The companies, individually and collectively, have taken such defensive measures as establishing a photographic-badge identification system of employees, fencing property,

and providing lighting installations. Particular attention has been given to the protection of such facilities as power plants, pumping stations, compression plants, and pipeline terminals. The companies, in cooperation with the local authorities, also screen the crews on the Lake tankers operating between Maracaibo, Aruba, and Curacao. The effectiveness of these measures, however, is to some extent reduced by the fact that the petroleum workers, even those who are non-Communist, are generally disaffected toward the Junta regime and therefore tend to regard with indifference or suspicion government and company efforts to enforce security measures.

33. Existing security measures in the petroleum industry, together with the assistance rendered by the armed forces, are probably sufficient to control strikes and local disturbances and to deal with sabotage by local elements with limited resources. Additional measures would be required, however, to cope with a large-scale, concerted program of sabotage involving foreign agents as well as local elements, such as could be expected in the event of war.

34. The nascent iron ore industry is less vulnerable than the petroleum industry. Iron ore is mined from open pits, and equipment is well dispersed. However, transshipment stations could be sabotaged rather easily and the 170-mile, narrow channel being developed in the Orinoco and Macareo Rivers could easily be temporarily blocked.

International Relations

35. The majority of the Venezuelans are not actively interested in world affairs, and like most other Latin Americans shy away from military involvement in areas remote from the Western Hemisphere. Venezuelan-US relations, in which oil plays an important role, have generally been friendly, but at times delicate because of the nationalistic attitudes of some members of the administration. Some irritation has arisen over trade and tariff policies, the civil aviation agreement, and purchase of military matériel.

36. Venezuela maintains friendly relations with most Latin American states, but its relations with some have varied with the political orientation of the Venezuelan Government. When AD was in power it pursued a policy of close cooperation with the more democratic nations of the Hemisphere. The present government tends to be cool toward those governments with which the AD regime was most friendly, especially when such governments continue to offer refuge to AD exiles. Guatemala is, however, the only Latin American country which has never recognized the Junta.

37. Relations with the USSR, established in 1945, existed merely on a formal level. In breaking off diplomatic relations with the USSR and Czechoslovakia in June 1952, the Junta was no doubt influenced by its

long-held view that the Soviet Embassy and Czech Legation were centers for propaganda and subversive activities. It also appears that the Junta expected to reap some domestic political advantage from the act, and possibly also to win favor from the United States.

38. In the Organization of American States and the United Nations Venezuela has generally supported US policies. It has ratified the Rio Treaty[4] and the Charter of the OAS[5] and has expressed willingness to cooperate in Hemisphere defense. Venezuela voted with the US on every important political question at the sixth session of the UN General Assembly. Venezuela has shown reluctance, however, to implement certain UN resolutions for which it has voted. Although it supported the UN action in Korea and the Uniting for Peace resolution,[6] it has not offered military aid to the UN in Korea or promised to set aside armed forces for use by the UN in the event of future aggressions.

39. The Venezuelans conceive their proper role in Hemisphere defense to be the protection of their own territory and strategic industries. They desire to render their own armed forces capable of fulfilling this mission. They would be unlikely to consent to the stationing of any foreign troops on Venezuelan soil.

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[4] Reference is to the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948; for text, see Department of State Treaties and Other International Acts Series (TIAS) No. 1838, or 62 Stat. (pt. 2) 1681.

[5] For text of the Charter of the Organization of American States, signed at Bogota, Apr. 30, 1948, and entered into force for the United States, Dec. 13, 1951, see TIAS No. 2361.

[6] Reference is to Resolution 377 (V) of the UN General Assembly, approved Nov. 3, 1950; for text, see United Nations General Assembly, *Official Records, Fifth Session, Supplement No. 20* (A/1775), pp. 10–12.

411.3131/8–2652

Memorandum by the Acting Secretary of State to the President[1]

SECRET WASHINGTON, August 25, 1952.

Subject: Request by Interdepartmental Committee on Trade Agreements for approval of the results of the negotiations of a supplementary trade agreement with Venezuela.

There is attached a recommendation by the Interdepartmental Committee on Trade Agreements requesting your approval of the results of the negotiations of a supplementary trade agreement with Venezuela.

I believe that the results of the negotiations are such that you may give effect to them under the authority of the Trade Agreements Act of 1934, as amended. In addition they are consistent with the recommendation of the National Security Council of March 5, 1952.

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[1] Drafted by Mr. Corse.

If you approve the Committee's recommendation and if the signature text can be prepared in time, it is planned to sign the agreement in Caracas on August 27, 1952. Publicity with regard to the details of the agreement will be released simultaneously by both Governments, but such release may not be made until sometime during the following week.

I recommend that the recommendations of the Committee be approved.

David Bruce

[Annex]

Memorandum by the Chairman of the Interdepartmental Committee on Trade Agreements (Corse) to the President[2]

SECRET WASHINGTON, August 25, 1952.

Subject: Request for Presidential Approval of Results of Trade Agreement Negotiations with Venezuela.

On August 29, 1951, you approved the recommendation of the Interdepartmental Committee on Trade Agreements to enter into negotiations for the purpose of supplementing the 1939 Trade Agreement with Venezuela.

Public announcement of intention to negotiate such a trade agreement was also issued on August 29, 1951. All other procedural steps in connection with the preparations for the negotiations as set forth in Executive Order No. 10082 and the Trade Agreements Extension Act of 1951 have been taken. Specifically, 1) a list of products on which concessions might be made by the United States was attached to the public notice of intention to negotiate; 2) this list was transmitted by you to the United States Tariff Commission in order that that Agency might report the limit below which concessions in its opinion could not be granted without causing or threatening serious injury to the domestic industry producing like or directly competitive products (popularly known as peril point findings); 3) opportunity to file written briefs and to present oral testimony with regard to all aspects of the negotiations was given to interested persons; 4) the United States Tariff Commission reported its peril point findings to you on December 27, 1951; 5) digests of trade information on United States import products and on United States export products were made available to the Interdepartmental Committee on Trade Agreements by the United States Tariff Commission and the Department of Commerce respectively.

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[2] Drafted by Mr. Corse.

After consideration of the information obtained through the above procedural steps, the Committee obtained your approval on March 17, 1952 of the following two recommendations:

1. Offers by the United States and requests of Venezuela by the United States on the basis of an offer of 10½ cents on Venezuelan oil.[*]
2. An offer going below 10½ cents[†] provided that the Venezuelans refused to negotiate on the basis of recommendation 1, and that reciprocal concessions were obtained from Venezuela commensurate to the value of concessions granted by the United States. Other offers by the United States would remain within the peril point findings of the Tariff Commission.

Negotiations with the Venezuelans were begun on the basis of recommendation 1. Every effort was made to persuade the Venezuelans to negotiate on the basis of a 10½ cent offer. Despite intensive negotiation, the Venezuelans refused to accept such an offer as providing a basis for an agreement and were prepared to break off the negotiations and to give notice of termination of the 1939 Trade Agreement. At that time, with the approval of the Trade Agreements Committee, the additional offer on Venezuelan oil, as provided for in recommendation 2,[‡] was made and reluctantly accepted by the Venezuelans as providing, from their point of view, a valid concession on Venezuelan oil.

Having surmounted this important obstacle, it was possible to bring the negotiations to a successful conclusion. The text of the agreement is attached as Appendix A.[3]

As compared to the 1939 agreement, Venezuela grants new or improved concessions on $154 million of imports from the United States; on $12 million of imports they are withdrawing the 1939 concessions;

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[*] The kinds of petroleum products included in the designation "Venezuelan oil" are crude petroleum, topped crude petroleum, residual fuel oil and distillate fuel oil. For practical purposes, the peril point found by the Tariff Commission for Venezuelan oil may be considered as 10½ cents per barrel on all imports, although three of the Commissioners found that the peril point was the existing tariff quota arrangements (10½ cents per barrel on a quantity equal to 5 per cent of the total quantity of crude petroleum processed in refineries in Continental United States during the preceding calendar year and 21 cents per barrel on imports in excess of this quantity), while the other three Commissioners found that a rate of 10½ cents per barrel on imports would not result in serious injury being caused or threatened to the domestic industry. [Footnote in the source text.]

[†] A rate of 5¼ cents per barrel on all imports of crude petroleum, distillate fuel oil and residual fuel oil (for technical reasons topped crude is excluded) of less than 25 degrees API (American Petroleum Institute rating); a rate of 10½ cents per barrel on all imports of these products of 25 degrees or greater API. [Footnote in the source text.]

[‡] The technical question of whether imports of topped crude should be excluded or included in the concession set forth in footnote 2, page 2 was reconsidered subsequent to its March recommendations and the Committee decided to include such imports in the concession. [Footnote in the source text.]

[3] Not printed here.

and on $6 million of imports the new agreement provides for higher Venezuelan rates than in the 1939 agreement. The trade coverage of the 1939 agreement as supplemented by the new agreement is $240 million or about 60 per cent of total United States exports to Venezuela. Under the 1939 agreement, only 35 per cent of our exports were covered. Among the important items receiving new or improved duty concessions are apples, pears, certain dried vegetables, rolled oats, wheat flour, barley malt, baby and dietetic foods, wrapping paper, laboratory and refractory glass products, galvanized iron sheets, enameled iron and steel manufactures, builders' hardware, table flatware, unassembled trucks and passenger cars, motorcycles, aircraft and parts, trailers, radio and television receivers including parts, phonographs including combinations and parts, phonograph records, automatic refrigerators, scientific apparatus, hand tools, photographic products, office machinery, electric motors, pumps, numerous types of industrial machinery and apparatus and parts, generators and transformers. Among the products on which new bindings of duty-free treatment were granted by Venezuela are road building, textile and printing machinery; stoves, heaters and ovens, and parts for agricultural machinery. The agreement, as revised, covers 179 Venezuelan tariff items as compared with 88 in the 1939 agreement. It includes products of interest to practically every important group of United States exporters. The concessions by Venezuela have particular significance in as much as that country has no balance of payment difficulties in purchasing from the dollar area.

In 1950 United States imports from Venezuela of crude petroleum and residual fuel oil amounted to $288 million or about 90 per cent of our total imports from Venezuela. It is estimated that the 1950 value of trade on which United States granted improved customs treatment is about $175 million, of which practically all was crude petroleum and residual fuel oil. New concessions of potential value to Venezuela consisted of the binding of existing duty-free entry for iron ore, deposits of which are now being developed.

The supplementary trade agreement also revises some of the general provisions of the original 1939 agreement. The more important changes are (1) a revised provision under which tariff concessions are better protected against nullification or impairment by the use of quota restrictions, and (2) the inclusion of the escape clause pursuant to section 6–*b* of the Trade Agreements Extension Act of 1951. The Venezuelans also agree to extend more favorable customs treatment to products of the Virgin Islands.

If you approve the results of these negotiations, you are required under section 4 (*a*) of the Trade Agreements Extension Act of 1951 to transmit to Congress, within 30 days after entering into the agreement, a copy of the agreement together with a message identifying the article with respect to which a concession exceeding the peril point was granted and stating your reason for such action with respect to such article. A draft message to Congress is attached as Appendix B.[4]

In addition to the negotiating difficulty caused by the existence of a peril point finding by the Tariff Commission at a rate of duty on Venezuelan oil which was unacceptable to the Venezuelans as a basis for negotiations, the negotiations were further complicated by the desire of the Venezuelans to withdraw or modify certain of the concessions contained in the 1939 Trade Agreement. The products involved were generally agricultural, but did include a few industrial products. Generally, the reasons for such withdrawals or modifications were for the stated purpose of furthering the economic development of Venezuela. The Committee feels that the new concessions offered by Venezuela compensate for the concessions granted by the United States as well as for the 1939 concessions which Venezuela withdrew or modified. There is attached a letter[5] to you from the Secretary of Agriculture[6] which, while expressing concern that there may be an unfavorable reaction to the agreement from the United States agricultural community, does not interpose objection to the approval of this agreement with Venezuela because of the very important strategic value present in the other commodity areas. The Department of Agriculture feels however, that the new agricultural concessions by Venezuela do not balance the agricultural concessions in the 1939 agreement which Venezuela is withdrawing or modifying, and that this is serious in view of the rising tendency toward agricultural protectionism in Venezuela. Every effort was made to obtain additional agricultural concessions from Venezuela but such efforts were not successful.

Although recognizing that the Trade Agreement Act clearly authorizes the President to exceed a peril point finding by the Tariff Commission, the member from the Tariff Commission did not feel free, as a member of the Commission, to cast his vote in favor of a proposed agreement containing a reduction in the import excise tax on petroleum below the Commission's peril point finding. In addition, it was his view that, considering both the coverage and the quality of the concessions which would be granted by each country in the proposed agreement, the balance was decidedly in Venezuela's favor. On the other hand, he recognized that there was room for differences of views regarding the question of balance, and, further that the issues involved include considerations of public policy which the President would, of course, take into account in exercising his authority under the Trade Agreements Act. In these circumstances he felt that the proper course was to abstain from voting.

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[4] Not printed.

[5] The referenced letter, dated Aug. 21, 1952, is not printed.

[6] Charles F. Brannan.

Considering the supplementary agreement in its entirety, it appears to the Committee that the concessions both ways are substantially in balance. It believes that proposed United States concessions on the controversial petroleum items are reasonable ones and ones which will generally be acceptable to the domestic industry. It is firmly of the opinion that it will be beneficial to the trade and security interest of the United States to enter into the agreement.

Your approval of the results of the negotiation with Venezuela is hereby requested.[7]

CARL D. CORSE

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[7] President Truman approved the results of the negotiations with Venezuela on Aug. 28, and a Supplementary Trade Agreement was signed at Caracas on Aug. 28, 1952. For text of the Agreement, which entered into force on Oct. 11, 1952, see TIAS No. 2565, or *United States Treaties and Other International Agreements* (UST), vol. 3 (pt. 3), p. 4195. For text of President Truman's message of Aug. 29 to Congress concerning the Agreement, see Department of State *Bulletin*, Sept. 15, 1952, pp. 401–403.

Miller files, lot 53 D 26, "Venezuela"

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Miller) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] September 16, 1952.

Subject: Department of Justice Cartel Proceedings

I mentioned briefly to Mr. Bruce this morning the problem which has been created for us in Latin America as a result of the cartel proceedings being commenced against the oil companies by the Department of Justice. In my opinion there is nothing that has happened since I have been in my present position which has done more harm to American investment abroad than the announcement of these proceedings. Mr. Bruce suggested that I bring to your attention the following excerpt from a recent letter[2] from Ambassador Fletcher Warren in Caracas:

> "The most unfavorable development not only in August but for months to come was the publication by the Senate's Committee on Small Business of the so-called cartel report.[3] This made mad every oil man of any importance in Venezuela. It seemed to them that their honesty and integrity had been placed in question. They felt that they

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[1] Drafted by Mr. Miller.

[2] Not identified.

[3] Apparent reference to *The International Petroleum Cartel; staff report to the Federal Trade Commission submitted to the Sub-committee on Monopoly of the Senate Select Committee on Small Business* (Washington, Aug. 22, 1952).

had been working for Uncle Sam in Venezuela and working successfully. They had set an example for relations between oil companies and national Governments. They were advancing the national defense of the United States. Despite all this, Uncle Sam had let them down by the publication of old information in such a way as to subject them to embarrassment, to cause them unforeseeable difficulties with the Venezuelan authorities. Furthermore, they felt that the report played right into the hands of the Commies and the nationalists, and that we will not hear the last of the report for years. I must say, looking at the situation from the vantage point of the Embassy, I am inclined to agree largely with the oil men. It is certain that the Embassy's work will be made more difficult and that we may be embarrassed by the report at the most inopportune times."

I subscribe wholeheartedly to the above. Mr. Hewittson, Director for Latin American operations of Standard Oil (New Jersey), was in to see me yesterday on another matter and expressed dismay over these proceedings since they go to the very heart of the oil companies' relationship with the Venezuelan Government. This relationship, which has been worked out over a period of years, is based upon an allocation to the Venezuelan Government of 50 percent of the net profits of the companies. Naturally the amount of profit depends upon the prices which the companies realize on oil sales, so that when the United States Government officially alleges that oil prices are noncompetitive the whole basis of the oil companies' position in Venezuela is called into question. One of the Venezuelan cabinet officers recently stated to an official of our Embassy that although the Venezuelan Government was entirely satisfied with the present arrangement, nevertheless the political pressures generated by the commencement of the proceedings would undoubtedly require members of the Venezuelan Government as politicians to agitate for revision of the arrangements with the oil companies.

It is unnecessary to point out to you that the trend for nationalization of private property is getting stronger in Latin America. The entire mining industry in Bolivia is in imminent jeopardy of being taken over. The Brazilian Congress has amended the legislation to create the Government oil monopoly Petrobras in such a way as to eliminate any provision for even minority foreign participation in any oil venture. The copper companies have a serious problem in Chile. In both Argentina and Guatemala, foreign investments are in difficulty and in the latter a far-reaching agrarian reform law has just been passed. In the background is the case of Anglo-Iranian[4] and the Mexican expropriation of oil properties in 1937[5] which is advertised by the Mexicans as having been successful even though experts believe otherwise.

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[4] For documentation on the nationalization of the Anglo-Iranian Oil Company in Iran in 1951, see volume x.

[5] For documentation on this subject, see *Foreign Relations*, 1938, vol. v, pp. 720 ff.

We have recently successfully concluded negotiations with Venezuela for the modification of our trade agreement and as you know we have had to use our authority to breach the peril point on the rate of duty for petroleum imports. It would be consistent with our efforts in this regard to do whatever is possible to minimize future adverse repercussions for American investment abroad from the cartel proceedings.[6]

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[6] In a letter to Ambassador Warren discussing the oil cartel proceedings, dated Jan. 16, 1953, Deputy Assistant Secretary Mann stated that at its meeting on Jan. 9, the NSC had approved and the President had concurred in the recommendations of the Departments of State and Defense to terminate, on the grounds of national security, the criminal action against the oil companies and instead to appoint a Cabinet commission to consider the institution of a civil suit. Mr. Mann also stated that "we in ARA will continue to follow this matter closely and to do all within our power to prevent the continuance of a criminal suit with its attendant publicity and unfortunate repercussions in Venezuela." (Mann–Woodward files, lot 57 D 634, "Venezuela") For additional documentation on the applicability of U.S. antitrust legislation to international oil companies, see volume I.

731.00/12–552

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Miller) to the Secretary of State[1]

SECRET [WASHINGTON,] December 5, 1952.

Subject: Venezuelan situation.

Elections were held on Sunday, November 30, for a Constituent Assembly which will meet January 10 to review the acts of the governing Junta during the past four years, to draw up a constitution, to establish the procedure for election of a President, and to choose a provisional President to serve in the interim. Voting (by colored cards for party slates) was compulsory for all persons twenty-one years of age or above regardless of literacy, and elections took place in an orderly, quiet manner under the supervision of the Armed Forces. Early returns showed URD (leftist, non-Communist, rather nationalist) leading more than two to one. Principal Army officers then decided they would not under any circumstances turn over the Government to URD. Accordingly, the elections have evidently been rigged so that later returns, still incomplete, show the Government party, FEI, well in the lead.

The three-man governing Junta presented its resignation December 3 to the Armed Forces which appointed it in 1948 and which has now named Col. Marcos Pérez Jiménez (strong man of the Junta) provisional President. The only Cabinet changes were the replacement of the Minister of Interior[2] (who was also a member of the Junta) and the removal of the Junta Secretary[3] who was suspected of plotting with the opposition. The Foreign Minister on Tuesday evening requested our continuance of relations in accordance with Bogota Resolution 35,[4] and Ambassador Warren recommended this action. We feel the question of recognition is not involved, and have instructed him to continue relations through a routine call if satisfied that no influential group of American republics are planning to raise this question or delay action.

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[1] Drafted by Bainbridge C. Davis of the Office of South American Affairs, and initialed by Director of the Office Atwood.

It is not yet clear whether Pérez Jiménez will succeed in maintaining the support of the Armed Forces or in making a deal acceptable to the principal legal opposition parties, URD and COPEI. Nevertheless, the opposition called a general strike for noon December 4 claiming that the Government failed to recognize its victory at the polls. Scanty reports thus far received indicate that the general strike has not met with much success. We may expect criticism of the U.S. Government both from elements in Venezuela and in the U.S. for any action which may be interpreted as support of the military government's apparent overriding of election results. However, there is no other course to follow than the continuation of normal relations under present circumstances.[5]

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[2] Luis Felipe Llovera Páez, who was succeeded by Laureano Vallenilla Lanz.

[3] Miguel Moreno.

[4] For text, see *Ninth International Conference of American States, Bogotá, Colombia March 30–May 2, 1948: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 3263, Washington, November 1948), p. 271.

[5] No record of the Secretary's action on this memorandum was found in Department of State files; diplomatic relations with Venezuela, however, were continued without interruption.

611.31/1–1453

Memorandum by Bainbridge C. Davis of the Office of South American Affairs to the Director of That Office (Atwood)

TOP SECRET WASHINGTON, January 14, 1953.

Subject: Balance Sheet—Venezuela.

1—Political structure and orientation of government.

From the *coup d'etat* of November 1948, which overthrew the Acción Democrática government and dissolved Congress, until December 1952, a three-man Junta governed Venezuela by decree in the name of the Armed Forces. On December 2 the Junta submitted its resignation to the Armed Forces which then appointed Col. Pérez Jiménez, previously the strongest member of the Junta, as Provisional President. A Constituent Assembly elected on November 30, 1952 (with results which indicated a rigged election) met January 9, ratified the appointment of Pérez Jiménez as Provisional President, and approved all existing Government decrees. While the Constituent Assembly is in session, it is empowered to pass on all basic problems confronting the Government. While there is an atmosphere of instability, nevertheless, so long as the Armed Forces remain united, they constitute the final governmental authority. It is expected that Col. Pérez Jiménez, who speaks for the Armed Forces, will continue the policies of the Junta. It is a government of the moderate right which has encouraged continuance of free enterprise and co-operation with the U.S. Government and U.S. private interests in Venezuela.

2—Economy.

The economy of Venezuela is overwhelmingly dependent upon petroleum, over 90% of its foreign exchange, and directly or indirectly, over 65% of its government revenue coming from that industry. It is the world's largest exporter of oil, two-thirds of which is produced by American companies and one-third by British. Large deposits of very high-grade iron ore, which Bethlehem and U.S. Steel are just beginning to exploit, promise to broaden the base of its economy as well as contribute substantially to diminishing U.S. reserves. Venezuela has encouraged private enterprise and foreign investments, and U.S. private investments now total over $2 billion. Due to the oil industry, Venezuela has substantial dollar exchange, no foreign exchange control, and a high credit rating—and it provides one of our largest cash markets in the world today. On the other hand, rising economic nationalism presents a long range threat to our interests.

3—Strategic military importance.

The principal factor in Venezuela's strategic military importance to the U.S. is the fact that it produces over 1,800,000 b/d of oil, 40% of it going to the U.S. and the remainder to other parts of the free world, principally Europe and Latin America. U.S. production is insufficient for domestic peace-time needs, and during a war, Venezuelan oil would be vital to our military operations, while its proximity would facilitate its defense. Venezuelan iron ore is of lesser, though considerable strategic importance.

The geographic location of Venezuela at the entrance to the Caribbean is likewise of military importance. It is assumed that Venezuela's military role would be restricted to the protection of its oil industry and, presumably, as in World War II, the availability of its ports and air fields for transit of U.S. military vessels and planes.

4—Major problems dealt with in 1952 which furthered U.S. objectives.

(*a*) *U.S. Initiative.*

Aviation—Substantial progress was made toward the conclusion of a bilateral air transport agreement. Its signature and ratification by

Venezuela awaits the conclusion of a new contract between the Venezuelan Government and Pan American Airways and approval of the agreement and contract by the Constituent Assembly. This agreement is of particular importance as it will terminate the unilateral aspect of non-stop service between Caracas and New York now enjoyed by the Venezuelan airline, LAV, but denied to PAA.[1]

Freight Rates—Through the good offices of this Government, an agreement was reached between the Conference shipping lines serving Venezuela and the Venezuelan government-owned line, CAVN, to increase freight rates. Due to the Venezuelan Government's desire to hold freight rates down and the insistence of the Conference lines on the need for an increase, there was danger of a rate war which in turn would have damaged our political and economic relations. As a result of our efforts, a friendly settlement was brought about.

Point IV—A Point IV general agreement was signed in September 1952.[2] While Point IV operations in Venezuela are presently limited to the continuance of a health and sanitation mission (begun in 1942) and certain training grants, this agreement provides the basis on which any additional Point IV programs may be undertaken. The Venezuelan Government has shown a commendable desire to study its own development needs, and then to seek inter-governmental assistance only when private sources proved insufficient. When technical aid has been desired, the Venezuelan Government has been willing to bear a substantial part of the cost.

U. S. Steel Operations—The signature on January 14, 1952 of a contract between the Orinoco Mining Company (U.S. Steel subsidiary) and the Venezuelan Minister of Development[3] covering operating details[4] ended a long period of delay, and made possible the activation of U.S. Steel's preparations for large scale mining of iron ore. This represented the achievement of one of our major objectives in Venezuela bearing in mind not only the large American investment involved but also the strategic value of expediting the availability of this ore.

(*b*) *Other Country's Initiative.*

Trade Agreement—The conclusion of Supplementary Trade Agreement with Venezuela in August 1952 was an outstanding achievement in our relations with that country. The Venezuelans had sought the revision in order to obtain more favorable U.S. customs treatment on their principal export, petroleum, and at the same time to eliminate from the agreement certain Venezuelan tariff items to permit the development of local industry. They stated that failing to obtain their minimum demands on the oil item, they would conclude no agreement and renounce the existing one. In view of the importance to U.S. economic and strategic interests of maintaining favorable trade relations as well as friendly political relations, we took the unusual step (with the concurrence of the National Security Council) of reducing our tariff on oil below the peril point established by the U.S. Tariff Commission.

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[1] Documents pertaining to the negotiation of a bilateral air transport agreement are in file 611.3194.

[2] For text of the exchange of notes signed at Caracas, Sept. 29, 1952, constituting a General Agreement on Technical Cooperation, which entered into force on the same date, see TIAS No. 2700, or 3 UST (pt. 4) 5096.

[3] Pedro Emilio Herrera.

[4] A copy of the contract was transmitted to the Department of State under cover of despatch 1128, from Caracas, dated Jan. 25, 1952, not printed (931.5301/1–2552).

Military Equipment—In view of the predominant role of the Armed Forces, the Venezuelan Government has been particularly anxious to obtain military equipment from the U.S. It has shown no interest in the military grant aid program, prefering as a matter of pride and in view of its excellent financial position to purchase arms on a reimbursable basis. We have made a real effort to meet Venezuela's request for arms more promptly and to grant favorable treatment in the matter of priorities. In 1951 Col. Pérez Jiménez was dissatisfied with our response, but as a result of the special attention which has been given to requests in 1952, he has indicated his appreciation for our co-operation.

5–Major problems which did not develop successfully in 1952.

(*a*) *U.S. Initiative.*

Oil Concessions—Throughout 1952 we awaited the granting of new oil concessions to American oil companies to include both present operators and other companies not now operating in Venezuela. In view of the vital importance of Venezuelan oil to the U.S. in time of war, the fact that present concession areas have nearly reached their maximum efficient return and the considerable period needed to develop new areas, the U.S. Government has a direct interest in this problem. No new concessions have been granted since 1945, but in the fall of 1951, the Government indicated that it was about to do so. While no official reason was given for the failure to act during 1952, it is believed that the major factors were a hesitancy to grant concessions prior to legalization of the Government by means of a Constituent Assembly (a point which had been stressed by the opposition) and perhaps the realization that anticipation of such concessions might influence our bargaining position in negotiation of the bilateral trade agreement. The Venezuelan Government has been aware of this Government's desire that concessions be granted, but has always met the issue somewhat evasively.

Military Problem—(See Annex).

(*b*) *Other Country's Initiative.* None.

6–Status of pending problems. (Urgent when marked with an asterisk.)

*Aviation Agreement—In view of the fact that an Aviation Agreement was signed in 1948 but never ratified and that the current agreement has been under negotiation for nearly two years during which time LAV has unjustly benefited from non-stop privileges denied to PAA, the prompt signature and ratification by Venezuela of this agreement is of special importance. Unfortunately, the Constituent Assembly must now examine and approve both the new Venezuelan contract with PAA and the bilateral agreement, which introduces another element of delay. LAV's permit to operate its present service expires February 20, and there is a strong likelihood that CAB will not permit unilateral continuation of non-stop service by LAV unless the agreement has been ratified.

Oil Concessions—It is hoped that now that the Constituent Assembly has given an appearance of legality to the present Government, it will act to grant oil concessions.

Oil Cartel Case—The publicity given to oil cartel charges brought by the U.S. Government against several of the largest American oil companies (including Standard Oil of New Jersey whose subsidiary, Creole Petroleum Corporation, produces nearly 45% of Venezuela's total production) has played into the hands of the Venezuelan opposition parties to the disadvantage of American oil company operations there. The opposition has used this to attack the oil companies and the administration of oil laws by the present Government which in turn has felt that a Venezuelan investigation may be necessary in order to protect the Government from further attack. This may also delay Venezuelan action in granting new oil concessions.

Military Equipment—The Venezuelan Government continues to seek armaments of various types, and places importance on our willingness to give them preferred treatment. One aspect of this problem, which will require study in 1953, is the extent to which we can continue to grant this special treatment as a means of winning Venezuelan co-operation without, however, studying the relationship of this equipment to actual defense of the hemisphere. (It is obvious, of course, that most of the equipment now going to Venezuela is intended for strengthening the hand of the Armed Forces in its internal control of the country, and that some of the equipment has no value from the point of view of hemispheric defense even within the limited scope of defense of the oil industry.)

Military Problem—(See Annex).

[Annex]

Additional problem under 5a.

Military Problem—In March 1951 staff conversations were held in Panama between the Venezuelan and U.S. military representatives. An agreement document[5] was drawn up setting forth the results of the planning talks with respect to co-operation of the two countries in providing for the internal and external security of Venezuelan territory with particular reference to the oil industry. These conversations also dealt with the need for military equipment. Further talks were to have taken place in November 1951, but were cancelled on rather short notice by Col. Pérez Jiménez because of his dissatisfaction with the delay in delivery of U.S. military equipment. Despite the fact that he now appears to be satisfied with our co-operation in this matter, it did not seem possible to complete arrangements for the continuance of staff talks.

Additional problem under 6.

Military Problem—Taking into account the foregoing comments under 5*a*—"Military Problem"—and under 6—"Military Equipment"—consideration must be given during 1953 to the desirability of completing the staff talks and formalizing an agreement to indicate the necessity for Venezuelan acceptance of responsibility for specific tasks in hemispheric defense, and Venezuelan understanding that U.S. assistance in obtaining military equipment should be related to this responsibility.

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[5] For text, see *Foreign Relations*, 1951, vol. II, p. 1627.

731.5/2-353

The Deputy Director of the Office of South American Affairs (Bennett) to the Ambassador in Venezuela (Warren)

TOP SECRET WASHINGTON, February 3, 1953.
OFFICIAL–INFORMAL

DEAR FLETCH: We have been giving some thought to the military staff talks with Venezuela, which were begun in March 1951 but never concluded, and wondering whether this would not be an appropriate time to propose that they be resumed. Before even asking the people in Defense whether they would like to have us arrange for further conversations, we would like your informal comment on the advisability of doing so at this time.

As you will recall, the March 1951 talks which took place at Panama resulted in a memorandum document which was drawn up *ad referendum*. Arrangements were made to renew the conversations on November 5, 1951, and Lt. Gen. Morris was to visit Venezuela in that connection, but at the last moment, Col. Moreno, speaking on behalf of himself and Col. Pérez Jiménez, indicated that more favorable terms of payment for military equipment must be granted by the U.S. before the conversations could continue. It became evident that failure to receive military equipment promptly and to the extent requested by the Venezuelan Military was an even more important factor influencing the thinking of Col. Pérez Jiménez and his Chief of Staff. Our proposal to resume the talks either in December 1951 or January 1952 did not meet with Venezuelan approval. I also note from your despatch 1182 of February 1, 1952[1] that during a conversation which you and Col. Shaw had with Col. Pérez Jiménez, the latter replied to your question regarding resumption of the talks by stating that he hoped to give you an answer soon, after discussing it with his Chief of Staff.

As a result of vigorous and continued efforts by the State Department, improved terms of payment were offered the Venezuelans in a note of February 8, 1952,[2] and somewhat higher priority, as well as more prompt administrative handling of the Venezuelan requests for military equipment was granted by the Department of Defense. (The delays had also been due to ineffective and careless handling of orders by the Venezuelan military attachés in Washington, and this procedure was likewise improved.)

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[1] Not printed, but see the memorandum of conversation, Jan. 31, 1952, p. 1587, transmitted under cover of despatch 1182.

[2] Apparent reference to the memorandum cited in footnote 4, p. 1598.

Despite these efforts on our part and Col. Pérez Jiménez' statement to you that he had hoped to give you an answer soon, it appears that he has not brought the subject up again and that during the past twelve months there has been no progress toward renewal of the talks. I note that you have in your files a copy of a memorandum of conversation dated March 19, 1952[3] between Lt. Col. Bryde[4] of G–3 and Messrs. Bernbaum, Mackay, and Davis in which it was agreed that it would be wiser not to take the initiative in raising the question of further talks until the Venezuelans had actually received some of the M–18 tanks and so had tangible evidence of our willingness to fill their requests. It was realized that some of the equipment being provided was not needed by Venezuela to fulfill its defense role but was being demanded by that country as the price of its resumption of the talks. It was thought that after delivery of some of this matériel the Venezuelans could be told that agreement on a plan for protection of the oil fields[5] would place the U.S. participants in the talks in a better position to support Venezuelan requests for additional equipment. Finally, in a conversation with Col. Bryde on July 10, 1952,[6] Mr. Davis again expressed our opinion that it would be best to wait until some of the M–18's had arrived on Venezuelan soil, but stated that if Defense wished to raise the question sooner, we would be glad to obtain your advice as to timing.

In the foregoing paragraphs I have set forth our understanding of the status of this problem, and would appreciate your comments as to whether this is a correct summary. I judge that the subject has not been raised by either country during the past year. While I suppose it would be too much to hope for real political stability in the near future in Venezuela, Col. Pérez Jiménez, who has so far made the real decisions, is not confirmed by the Constituent Assembly as Provisional President, and he has recently seemed to desire to work more closely with the U.S. We in turn have done as well as we are likely able to do in granting Venezuelan requests of interest to the Military. Therefore, from this distance, the time would seem to be as propitious as any we might choose to arrange for the resumption of the staff talks. Before ascertaining whether Defense has any reason for not wishing to reopen the matter at this time, we would appreciate your appraisal.

Very sincerely yours,

TAP

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[3] Not printed (731.5/3–1952).

[4] Walter J. Bryde.

[5] Documents pertaining to this subject are in file 831.2553.

[6] Not printed (731.5/7–1052).

731.5 MSP/5–1153

The Ambassador in Venezuela (Warren) to the Department of State

TOP SECRET CARACAS, May 11, 1953.
No. 2032

Subject: Resumption of Military Staff Talks With Venezuela; Venezuelan purchases of United States Military Equipment

The Embassy is of the opinion that this would be an appropriate time to propose the resumption of the military staff talks with Venezuela, which were initiated in March 1951, but never concluded. The Department will recall that the March 1951 talks at Panama resulted in a memorandum which was drawn up *ad referendum*, and that arrangements were made to renew the conversations on November 5, 1951. At the last moment, however, the Venezuelan Chief of Staff, Col. Félix Moreno, indicated that before the conversations could be resumed more favorable terms of payment for military equipment must be granted by the United States. It became evident that failure to receive military equipment promptly and to the extent requested by the Venezuelan Armed Forces was an even more important factor influencing the thinking of the Minister of Defense, Col. Marcos Pérez Jiménez, and his Chief of Staff. The United States proposal to continue the talks either in December 1951 or January 1952 did not meet with the approval of the Venezuelan Government.

Despite Col. Pérez Jiménez' statement about that time to Ambassador Warren that he hoped to give him an early answer as to when the conversations could be resumed, the Venezuelan Government did not bring up the subject again, and during the past year there has been no progress toward renewal of the talks.

The difficulties of the Venezuelan Government in obtaining military equipment and supplies in the United States, especially modern ships and aircraft, have not only constituted the major deterrent to the resumption of the military staff talks, but also may have far-reaching, long range effects equally serious for the United States. Venezuela has the money and the determination to expand her army, navy and air force, and experience has demonstrated that if she is unable to obtain the necessary equipment and supplies in the United States, she will obtain them from other countries. This Embassy has no doubt that continued purchases of military equipment and supplies from nations other than the United States will seriously jeopardize the positions of the United States Army, Navy and Air Missions to Venezuela, and, to some extent, have already done so.

In this connection, the Venezuelan Air Force has recently acquired six Canberra jet light bombardment aircraft from Great Britain. These six aircraft, added to the 21 British Vampire jet aircraft the

Venezuelan Air Force already had in operation, increase the proportion of British aircraft operated by the Venezuelan Air Force to 20 percent of total aircraft strength. Moreover, it is understood that six additional Canberras are being purchased by the Venezuelan Air Force from Great Britain for delivery later this year. Because of the large capital expenditures necessary to establish a stock of replacement parts and to train personnel in the operation and maintenance of advanced jet aircraft, the Embassy believes it unlikely that Venezuela will purchase any aircraft from the United States after its air force has become largely equipped with British Canberras and Vampires.

All except three of the United States aircraft now in use by the Venezuelan Air Force are more than seven years old, while none of the British aircraft are more than two years old. It appears inevitable that the older U.S.-manufactured aircraft will be replaced by modern British aircraft over the next two years unless Venezuela is able to obtain new aircraft from the United States. The prestige and influence of the United States Air Mission to Venezuela is being reduced in direct proportion to the percentage of British aircraft acquired by the Venezuelan Air Force. The recent acquisition of the six Canberra jet aircraft has already had the following results:

1. The Chief of Staff of the Venezuelan Air Force has informally discussed with the British Air Attaché the assignment of a British Air Mission to Venezuela.
2. Venezuelan officers and airmen who would normally be attending United States Air Force schools and factory training courses in the United States are being sent to similar facilities in the United Kingdom.
3. Additional British technicians are being sent to Venezuela to assist in the maintenance and operation of British aircraft.

For the convenience of the Department of Defense, the Embassy lists the following intelligence reports[1] from the Air Attaché relating to the acquisition of non-United States aircraft by the Venezuelan Government:

IR–59–49
IR–11–49
IR–32–50
IR–174–51
IR–144–51
IR–193–52
IR–172–52
IR–171–52
IR–169–52
IR–112–52
IR–21–52
IR–54–53
IR–44–53
IR–24–53
IR–23–53

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[1] None printed.

The same kind of situation is evident with regard to Venezuela's recent purchases of naval equipment and supplies. The Venezuelan Navy has planned a five-year expansion program to build a modern naval force, entailing the purchase of three destroyers, six light destroyers, three submarines, two minesweepers, one troop transport, one light cruiser, and various light patrol boats, tugs and cutters. Although it was originally planned to obtain all of these ships from the United States, the Venezuelan Government has negotiated with other countries for purchases because of difficulties in obtaining the approval of the United States Government, and delay in reaching a satisfactory agreement as to prices. While Venezuelan naval officers admit that there are definite advantages to owning United States ships and equipment, they doubt that these advantages justify the delay involved while the United States decides whether or not to make the material available.

In the naval program outlined in the preceding paragraph, the Venezuelan Government contracted for the purchase of the three larger destroyers in England, and they are now under construction. Contracts for the construction of three of the six light destroyers have been concluded with an Italian shipbuilding firm.

If the Venezuelan Navy is unable to obtain the types of equipment it wants to purchase from the United States, there is no doubt that it will obtain this equipment from other nations. Venezuelan naval officers have very definite ideas of the type of equipment they want, and they will resent any attempts by the United States to try to force other types of equipment upon them, especially since Venezuela is prepared to pay for the best. Venezuela is building a new navy; it wants new equipment, the most modern and efficient available. If the United States is able or willing only to supply obsolete equipment, Venezuela will obtain its requirements elsewhere.

The Embassy considers it important to emphasize that Venezuelan naval officers not only believe that nations other than the United States are more responsive to Venezuela's needs, but in many cases feel that they are not accorded the type of treatment their positions require on procurement and other missions to the United States. The Chief of the Naval Staff has evinced a certain amount of resentment against the United States because Venezuelan naval officers consider that their colleagues have not been courteously treated on recent visits to the United States. The probable reason for this treatment is that Venezuelan naval officers have relatively low ranks even though many occupy important positions; the top naval officer in Venezuela, for example, has the rank of Commander. When dealing with these officers it is important to remember that despite their low ranks as compared with United States Navy ranks, they have the same power and authority that is normally exercised by the highest-ranking United States naval officers. Admittedly it will take a great deal of time and effort to prove to Venezuela that the United States does have a genuine interest in her navy and will actually assist in procuring the equipment and teaching them how to employ it effectively—but we must do just that in order to safeguard our position in this important area.

Although the Venezuelan Army has been obtaining military equipment from the United States, there is dissatisfaction in the method of payment, in the length of time required from the initial request for equipment until actual delivery is made, and in other administrative difficulties. While the Ministry of Defense understands that some types of military equipment cannot be made available immediately, it believes that the time taken to process requests for equipment in the United States is unnecessarily prolonged. The Embassy is pleased to note, however, that improved terms of payment for military equipment purchased in the United States were offered to the Venezuelan Government on February 8, 1952, and that somewhat higher priority, as well as more prompt administrative handling of Venezuelan requests for military equipment, was granted by the Department of Defense. The Venezuelan feeling in respect to military equipment only becomes truly important because of the situations in the naval and air force fields.

In suggesting that the time is opportune for again proposing resumption of the military staff talks with Venezuela, the Embassy has taken into consideration the following:

1. The Chief of Staff of the Venezuelan Navy has informed the Embassy Naval Attaché that the navy would favor the resumption of the conversations at an early date. He declared that his Government is disposed to resume the staff talks with the attitude that the policy of the United States has changed and that there are now good prospects for attaining agreement.

2. On April 19, 1953, Col. Marcos Pérez Jiménez was named President for the next five years, and a constitutional form of government replaced the provisional administration that had ruled Venezuela since military leaders assumed control of the country on November 24, 1948. The transition to a constitutional administration was accomplished in an atmosphere of calm and order, and today the indications are that President Pérez Jiménez will continue to exercise complete control over the country, barring a serious (and at present unlikely) split in the Army. While the nation has not yet achieved and does not claim to have achieved complete democracy, such democratic institutions as a liberal Constitution and national, state and municipal legislatures have been reinstated for the first time since 1948. Moreover, the present Government is strongly anti-Communist and has outlawed the Communist Party. It has broken diplomatic relations with Soviet Russia and Czechoslovakia, and embarked upon the closest supervision of the activities of Communist front groups.

3. The new President has demonstrated on many occasions his friendly attitude toward the United States and his desire to work more closely with the Government of the United States. This attitude has been made clear to our military attachés, to our military and diplomatic missions. All officials of these missions believe in the sincerity of the President's attitude.

4. Embassy Caracas considers that, with Venezuela turning more and more to European sources for military equipment, there is the greatest danger that European military missions will replace our own and make ineffective our declared objective of standardizing equipment and techniques in the other American republics.

5. This Embassy is convinced that the course which Venezuela follows with respect to our military missions and the standardization of equipment and techniques will influence every other country south of the Rio Grande. Once the United States starts losing ground in Venezuela our prestige will be affected *pari passu* in all the other American republics.

6. Most Venezuelans realize that this country is an important link in the defense of the hemisphere. They also know that, in addition to her strategic position on the Caribbean at the northern extremity of South America, Venezuela has vital supplies of petroleum and iron ore. Today, in contrast to many other Latin American nations, she has no foreign debt and no shortage of dollar exchange. She prefers, she wants American military supplies and equipment.

This Embassy is of the opinion that the time has now come to propose to Venezuela that the military staff conversations be resumed as soon as possible. It stresses that for the conversations to be a success, the United States must be able to assist Venezuela fully in the aeronautical, military and naval fields. This means a careful review of our policy and a decision in keeping with the best over-all interest of the United States.

FLETCHER WARREN

Mann-Woodward files, lot 57 D 598, "Venezuela"

The Ambassador in Venezuela (Warren) to the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)

CONFIDENTIAL
OFFICIAL–INFORMAL

CARACAS, June 1, 1953.

DEAR TOM: I saw President Pérez Jiménez Saturday morning at 9:30 in keeping with the appointment which I had requested. I took along George Phelan[1] in order to have someone with me truly bilingual who could help me out in case I got stuck for a Spanish word and who would be in a position to get any intonation or implication of the

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[1] George R. Phelan, Attaché, Caracas.

President that I might miss. George and I were with him for about 35 or 40 minutes. I was able to cover all the points that I had decided upon before hand. I found the President, at the beginning of the conversation, a bit reserved. Both George and I are inclined to believe that that attitude is explained by the President's expectation that we were going to bring up the Penzini Hernández article concerning Jack Cabot.[2] As soon as the President saw that we were not raising that matter, his friendliness left nothing to be desired. He was very much on the *qui vive* and well informed in what he said. I was particularly pleased with the understanding of the matters raised as revealed by his expression, both facial and oral. He gets to be more the President each time I see him.

First, I brought up the visit of Dr. Milton Eisenhower.[3] I stated who the members of the party would be and the purpose of the visit. I told him in a general way what the Embassy expects to do during the visit and added that a member of the Embassy staff would be in touch with the Foreign Office during the present week to be sure that we all kept in step on the program to be set up. (Let me state at this point that thus far nothing has been said about Armed Forces Day on June 24 by anyone in the Foreign Office or the Presidency. However, we believe that ceremonies for the occasion will be held.) The President made it clear that his Government welcomes the visit of Dr. Eisenhower and will do all it can to make his stay here a success. Although I had mentioned Mr. Cabot's name in particular along with that of Mr. Bennett, the President did not refer to him. Both George Phelan and I are inclined to believe that the President's failure to mention Mr. Cabot was a simple omission. In connection with the President's reference to Dr. Eisenhower, both George and I felt that the President had in mind the article of Dr. Juan Penzini Hernández alleging approaches by Mr. Cabot to Latin American Communists or radicals and leftists in exile. However, he did *not* mention Penzini when saying that occasional articles appear in the local press which are unfriendly to the United States, but that the censorship here is limited to the publication of items or news related to internal politics or domestic affairs. The President went on to mention that certain papers and magazines in the United States, such as the *New York Times*, *Time*, *Fortune*, and others, publish articles most unpleasant to the present Government of Venezuela, but that it is well understood here that such articles do not reflect the United States Government's opinion and that, because of the existence of the free press in the United States, our Government cannot prevent the publication of such articles. George and I are of the opinion that the little President handled his end of the conversation very well indeed, but that we surprised him in not bringing up Penzini or his article.

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[2] Assistant Secretary of State for Inter-American Affairs.

[3] Dr. Eisenhower visited Venezuela June 23–26, 1953, as part of a larger factfinding mission undertaken at the request of President Eisenhower. For additional information concerning the mission, see the editorial note, p. 196.

Secondly, I took the opportunity to make an explanation regarding the Simpson Act[4] and proposals to restrict the importation of fuel oil in the United States. I tried to make plain that the proposals were not aimed at Venezuela in particular and were the result of developments in the United States affecting a considerable percentage of the people of our country. I also touched on the political situation facing President Eisenhower in the American congress because of the small majority which the Republicans have in the House and Senate. I mentioned the good work done by the Executive power, the State Department, and American citizens in setting forth the facts of the oil situation to the Ways and Means Committee of the House of Representatives. In effect, I bragged a little bit about how pleased I was with the efforts made by Americans in business in Venezuela to see that the truth about this matter is known in the United States. I stated that it looked as though we (Venezuelans and Americans) would have a year in which to present properly the true situation in order to avoid the imposition twelve months from now of the Simpson or other similar restrictions. I emphasized that it is a mutual problem and one that will call for the best study and attention that can be given by both Venezuelans and Americans. I said that I would try to see that American citizens here in Venezuela do not sound off in such a way as to make our problem in the United States more difficult. I did not mention Venezuelans in this connection but the President got the point.

I found the President well informed with respect to the Simpson proposal and other restrictive measures. He readily admitted that it was a mutual problem. He stated however that he and other members of the Government are rather optimistic for several reasons. First, they are sure that President Eisenhower would not like to see such a law enacted during the first year of his administration. Pérez Jiménez therefore trusts that President Eisenhower will exert his influence to prevent congressional enactment of any of the restrictive proposals. Secondly, President Eisenhower, as a soldier, realizes better than many others that it is important for the United States to preserve its oil reserves within its own territory for emergency cases, as suggested by the Chiefs of Staff. Furthermore, it is of vital interest to important sectors of the U.S. public that the economy of Venezuela be maintained at the present high level. With regard to the possible recurrence of the demand from independent oil and coal producers in the United States next year for restriction, President Pérez Jiménez considers the demand from the coal producers a negligible one because he believes that limitation of oil imports would not induce the American people to use coal instead of oil; and he further considers that, as far as the independent oil producers are concerned, the Venezuelan policy should be to make every effort to arouse an interest in the exploitation of oil in Venezuela. Finally, that enactment of such restrictive measures could be detrimental to the present friendly relations between Venezuela and the United States and most likely would have undesirable influence on our relations with other Latin American countries. President Pérez Jiménez academically understands the relations between our President and the American congress but it was evident to both George and me that, despite what I had said, he still thinks our President should be able to handle the American congress in the same way that he would handle the Venezuelan Senate and Chamber. The President seemed to admit that this is a problem for both Venezuela and the United States, that Washington has done what it could thus far, that Americans and Venezuelans here have been on the alert and active, and that the next 12 months are the trying time. I am afraid that I did not impress him as I had hoped with a need for understandng the political importance of this matter to our own Government. In all of this, he was thinking as a soldier and not as a politician responsible to an electorate. I am sure that during the next 12 months, in speaking to the President, I shall have to go back often to this subject.

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[4] No "Simpson Act" has been identified. Ambassador Warren may have been referring to one of several restrictive tariff bills introduced into the 83rd Congress, 1st session, by Representative Richard M. Simpson (R.–Pa.), possibly H.R. 5495, a bill to extend the President's authority to modify tariffs under the Trade Agreements Act. H.R. 5495 became Public Law 215, approved Aug. 7, 1953; for text, see 67 Stat. 472.

My main purpose in seeing the President was to bring up the Air Agreement. I will discuss that in another letter[5] to you under today's date.

At the close of our conversation, the President brought up his desire to obtain quickly ammunition for the tanks which Venezuela bought from us last year. I told him he could count on my assistance, and that of the Military Attaché.[6] I have asked Colonel Haley to prepare me a memorandum on the subject (which he has done). I am forwarding a copy of that memorandum to Mr. Jamison under cover of a separate letter[7] and asking him to do what he can to expedite the shipment of ammunition.

To end up my visit with the President, I, at the request of the Governor of Arkansas, delivered to the President a document conferring upon him the title of "Arkansas Traveler" and making him an Ambassador of good will on behalf of Arkansas to the people of this country. It was quite a pretentious document with plenty of colored ribbon and a gold seal. The President was evidently pleased and said that he would write me a letter accepting the designation and send the communication through channels so that I could pass it on to the Governor of Arkansas. It was nice to be able to end the audience with the President on this pleasant note.

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[5] *Infra.*

[6] Lt. Col. Charles L. Haley, 3d.

[7] Neither printed.

George and I agree that it was a satisfactory visit and I am glad to have it a matter of record.

Cordially and sincerely yours, FLETCH

Mann–Woodward files, lot 57 D 598, "Venezuela"

The Ambassador in Venezuela (Warren) to the Deputy Assistant Secretary of State for Inter-American Affairs (Mann)

CONFIDENTIAL
OFFICIAL–INFORMAL

CARACAS, June 1, 1953.

DEAR TOM: I would appreciate your informing Charlie Nolan[1] and others concerned that I saw the President Saturday morning, May 30, at which time I brought up the Air Agreement. I reviewed all our efforts to obtain a mutually satisfactory agreement, pointing out that we had been on this matter for about three years. I said that over six months ago, the Foreign Office and the State Department thought they had reached accord on an agreement that could be signed as soon as Pan American Airways had agreed with the Venezuelan Government on its contractual relations, that for months Pan American has been endeavoring to obtain a definitive, firm offer from the Government of Venezuela. I went on to say that if Pan American understood what Venezuela desires of that company and if I understand Pan American, that company would be able to accept the definitive offers which Venezuela has considered making. I told the President that there is pending at this time an application on the part of LAV for the extension of its permit to fly between Maiquetia and New York. I emphasized that I have done everything within my power to prevent the linking of the renewal of that permit with the Aviation Agreement now pending. I implied that I have now come to the end of my rope, and that I am afraid that I cannot longer prevent the linking up of the two matters. I then said that I wanted to tell him that Pan American has supported the interest of Venezuela in connection with the proposal to restrict the importation of oil into the United States. I said further that Pan American Airways had a Vice President doing all that he could to assist Venezuela in this connection.

The President said that he was pleased to hear about the assistance given Venezuela by Pan American, and that he personally would move to facilitate the early disposal of the Air Agreement. I believe the President intends to act quickly in this matter. At any rate, we have done all we can at this stage without making a threat. I hope our efforts will be successful.[2]

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[1] Officer in Charge of Transportation and Communications, Office of Regional American Affairs.

Cordially and sincerely yours, FLETCH

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[2] On Aug. 14, 1953, a bilateral Air Transport Agreement and exchange of notes were signed at Caracas, and entered into force on Aug. 22, 1953; for text, see TIAS No. 2813, or 4 UST (pt. 2) 1493.

411.006/7–1753

Memorandum by the Special Assistant to the Assistant Secretary of State for Inter-American Affairs (Woodward) to the Under Secretary of State (Smith)[1]

CONFIDENTIAL [WASHINGTON,] July 17, 1953.

Subject: Venezuelan Ambassador's call on you.

Discussion:

On instructions from his Foreign Office, Dr. César González, the Venezuelan Ambassador, has asked to see you briefly regarding a petroleum problem. His call undoubtedly relates to the Simpson Bill, HR–5894,[2] which would restrict U.S. imports of petroleum and fuel oil. This bill would violate the present Supplementary Trade Agreement with Venezuela concluded last August, and would cause about a $300 million cutback in Venezuela's annual crude oil production, thereby affecting the Venezuelan Government's revenue (65% of which comes from oil) and its receipts of dollar exchange (95% of which come from oil.)

We are of course aware of the damage such legislation would do to our own security and commercial interests and our over-all relations with Venezuela. The Department has repeatedly made its views known to Congress with respect to this and similar proposed legislation, and is following the progress of the Simpson Bill very closely. It is possible that HR–5894 will be passed by the House this week. It is not anticipated that it will be acted upon in the Senate.

President Pérez Jiménez and Foreign Minister Otañez on June 25 mentioned to Dr. Milton Eisenhower their earlier concern over proposals in the U.S. Congress for restrictions on oil imports. However, both officials expressed confidence that the threat of such legislation had largely passed and stressed that they understood clearly, as Dr. Eisenhower had pointed out, that it was the policy of President Eisenhower and his administration to oppose such legislation.

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[1] Drafted by Bainbridge C. Davis and approved by Mr. Atwood.

[2] Representative Simpson introduced H.R. 5894 on June 23, 1953. The bill was designed to amend the Trade Agreements Extension Act of 1951, by imposing quotas on petroleum imports and a sliding scale tax on lead and zinc imports. For a summary of the bill's provisions and the views of the Department of State opposing the bill, see *Congressional Record*, 83d Cong., 1st sess., vol. 99 (pt. 7), pp. 9637–9642. The bill was debated and recommitted to the House Ways and Means Committee on July 23; it was not enacted into legislation

It is apparently the intention of the White House to do nothing directly to deter protectionist elements from airing their views in Congress. The State Department has, with White House approval, clearly indicated to Congress its opinion that this legislation will have a unfavorable effect on relations with Venezuela and other countries.

The Ambassador may possibly be concerned over a Joint Resolution (SJR–90) which would nullify the present 5¼¢ tax on petroleum products from Venezuela. The Department's opposition to this bill is also being prepared in response to an inquiry from the Senate Finance Committee.

Recommendation:

It is recommended that you receive the Ambassador and that if his concern relates to the Simpson Bill, you assure him of the Department's continued opposition to this measure and of its belief that it will not pass both Houses of Congress. You may wish to add that the Administration is firmly devoted to promoting trade, not additional protectionism. The President's views on this subject are clear, and we have been advised that it would be best to use our most emphatic representations to the Congress in only those instances where there is imminent likelihood that the proposed restrictions might actually become law.[3]

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[3] Ambassador González met with Under Secretary Smith on July 20, 1953; the memorandum of their conversation, dated July 20, drafted by Mr. Woodward, is not printed (Secretary's Memoranda of Conversation, lot 63 D 75, "May–September 1953").

S/P–NSC files, lot 61 D 167, NSC 144 series

Draft Statement of Policy Prepared in the Department of State for the National Security Council[1]

TOP SECRET [WASHINGTON,] October 22, 1953.

UNITED STATES OBJECTIVES AND COURSES OF ACTION WITH RESPECT TO VENEZUELA

(Parenthetical references are to paragraphs of staff study[2])

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[1] No drafting information appears on the source text, nor was any found in Department of Sate files. The draft statement was transmitted to the NSC Planning Board under cover of a memorandum by Executive Secretary Lay, dated Oct. 22, 1953. The Planning Board considered the statement at several of its meetings during August 1954 in connection with the preparation of NSC 5432, but did not forward the document to the NSC (S/P–NSC files, lot 62 D 1, "Records of Planning Board meetings, 1954"). Regarding NSC 5432, see the editorial note, p. 65; for text of NSC 5432/1, Sept. 13, 1954, see p. 81.

[2] Not printed.

GENERAL CONSIDERATIONS

1. The importance of Venezuela to the U.S. is due principally to its strategic resources (chiefly petroleum and iron ore), and market for U.S. exports as well as the very large U.S. private capital investment, its geographic location, its support of the free enterprise system, and its political support of the U.S. and the free world in international organizations. (1–9)

2. Recent Venezuelan history has been characterized by rapid economic growth but much slower political evolution. The tradition of strong rule by military leaders has retarded political education, and has caused an acceptance of subversive and violent methods to accomplish political change. This, coupled with a rather sharp division between the very few who are wealthy and the extremely poor masses, without a strong, stabilizing middle class, has facilitated authoritarian government. The gradual education of the masses, the growth of labor unions, and the tests of political power enjoyed briefly by the masses from 1945 to 1948, as well as the rising tide of nationalism throughout Latin America, threaten the continuance of this type of government. (15, 16, 22–24)

3. The present dictatorship, which is constitutional in form only, is not generally liked by the people, but is popular with the majority of the armed forces and of the business interests and privileged classes who prefer a government friendly to them rather than greater civil liberties. So long as the President, Colonel Perez Jimenez, retains the support of the armed forces, there is no likelihood that he will lose control of the country. The leaders of the principal opposition parties are in exile, and while the Government has had only partial success in breaking up the organization of the Accion Democratica party which held power from 1945 to 1948, it is unlikely that any civilian group will be able to overthrow the Government. Efforts to split the armed forces are continuing, but have not so far achieved such success. There is a large and growing element which favors greater economic nationalism and which coincides partially with the group demanding greater civil liberties. Each of these elements will increasingly demand a voice in the Government, and this in itself presents a conflict of interests for us. (17–21, 25–27, 39)

4. Venezuela's economy is overwhelmingly dependent upon petroleum, and both the commercial and military significance to us of this product give it a position of outstanding importance in Venezuelan-U.S. relations. This oil, on which the economy and the Government revenue depend so heavily, is produced ¾ by American and ¼ by British-Dutch capital and management. These facts enhance our direct interest in this commodity, and create additional problems in our relations. Increased Venezuelan production and discovery of additional

reserves are of strategic importance to the U.S., while at the same time, increasing exports of Venezuelan oil to the U.S. in peace time involve political problems for us because of the objections of our domestic producers. Recognition of the importance of Venezuelan oil and of this market for a half billion dollars of U.S. exports annually were the primary considerations in our acceding last year to Venezuela's request for negotiation of a Supplementary Trade Agreement. Legislation which has repeatedly been introduced in our Congress threatens these trade agreement commitments as well as to varying degrees, our export market, our investments, and our security interests, and it would seriously damage our friendly relations. (4, 7, 11, 45)

5. The development by American steel companies of large deposits of high-grade iron ore is of strategic importance to us, and adds to U.S. private investments in Venezuela now estimated at over $2 billion. Venezuela's position as an exponent of private enterprise and its friendly treatment of foreign capital constitute additional reasons for our desire to maintain friendly relations and to assist in the development of a sound balanced economy. (5, 6, 13)

6. Venezuela's historically friendly attitude toward the U.S., its cooperation with us during the second World War, and its subsequent cooperation with us in both regional and United Nations matters, as well as its anti-Communist stand, and its desire for a more prominent position among the American Republics emphasize its importance to the U.S. However, while this friendly attitude is representative of the ruling element, we must not overlook the distrust and misunderstanding of the U.S. which is widespread on the part of the laboring element and the uneducated masses. (8, 9, 27, 28)

BASIC OBJECTIVES

7. The objectives of the U.S. with respect to Venezuela are:

A. *Political*

(1) Basic friendliness toward the U.S. on the part of the Venezuelan Government, political parties and people and a resultant support of our economic and military objectives in Venezuela, of our area-wide policy of maintenance and hemispheric peace and solidarity, and of our world policies, particularly in the UN; (40, 41, 57–59)

(2) The elimination of the menace of internal Communist or other anti-U.S. subversion; (41, 59)

(3) Encouragement of orderly progressive development by Venezuela of stable representative institutions in order to strengthen Venezuela's support for the way of life of the U.S. and the free world. (40, 59)

B. *Economic*

(1) A continuing development of Venezuela's petroleum and iron ore resources; (44–52)

(2) Maintenance of an important market for U.S. exports; (7, 43)

(3) Venezuela's continued adherence to the private enterprise system, including the further development by private capital of its strategic resources of petroleum and iron ore and the continuance of a favorable climate for foreign investments; (42, 54)

(4) Development by Venezuela of a strong and balanced economy so that Venezuela will be an increasingly effective member of the hemisphere system and participant in world-wide economic and political affairs; (54–56)

(5) Development of better living conditions for the Venezuelan masses and an increased share for them in the economic wealth of the country as the surest means of preventing the growth of Communism and of assuring that any more popularly chosen government will not be less friendly toward the U.S. (55, 56)

C. *Military*

(1) Safeguarding of Venezuelan strategic resources, territory, and adjacent sea and air lanes through individual and collective defense measures against external aggression; (2, 3, 12, 32–37, 60–63)

(2) Ensuring the availability to the U.S. and its allies in time of war of maximum quantities of Venezuelan oil and other raw materials. (32, 36, 44, 45)

COURSES OF ACTION

Political

8. The U.S. should seek to maintain the friendship of the Venezuelan Government and its support for our hemispheric and world-wide policies by:

a. Showing a genuine interest through assistance wherever possible in the economic objectives of that Government; (13, 42, 43, 45, 52–56)

b. Showing respect, wherever warranted, for Venezuela's desire for political leadership among the American Republics; (30)

c. Showing appreciation for its cooperation with the U.S. and other nations of the free world in the UN; (8, 30)

d. Consulting in advance with respect to important UN or other international issues, and showing a willingness to take its views into account rather than merely expecting it to vote on our side. (8, 9, 30)

9. The U.S. should also seek to win the greater friendship of the Venezuelan people and thereby assure itself of support which will outlast any current government, and will not suffer by the development of a more representative type of government. This can best be accomplished by the approach set forth in paragraph 13; also by displaying a friendly attitude in any contact with the political leaders and an in-

terest in their programs insofar as they are not directed against the constituted government, and at all times exercising great care to avoid any action which might be interpreted as intervention in the political life of the country. (19–21, 26–28, 39, 40, 57–59)

10, The U.S. should endeavor to eliminate Communist and other anti-U.S. subversion by:

a. Cooperating with Venezuela in eliminating those conditions which foster the spread of Communism; (22–25, 30)

b. Carrying out the program set forth in paragraph 13;

c. Indicating informally its approval, when appropriate, of anti-Communist measures taken by the Venezuelan Government, but distinguishing clearly between these and the repression of other opposition elements. (41)

11. The U.S. should encourage the development of democratic representative institutions in Venezuela by:

a. Promoting visits to Venezuela of U.S. legislators and leaders in the political life and thought of this country and reciprocally the visits to the U.S. of leaders in the Venezuelan Government and intellectual circles; (39, 40)

b. Bestowing upon leaders in Venezuelan civic life honors at least equivalent to the honors and decorations which it may be considered necesssary or expedient to confer upon those leaders who are symbols of military achievement or authoritarian power. (39, 40)

Economic

12. The U.S. should seek to achieve its economic objectives by:

a. Taking all possible steps to assure Venezuela of a continued and reliable market in the U.S. for petroleum. It is essential to the security of the U.S. to have access to this important nearby source of petroleum, and assurance to Venezuela of a stable peacetime market in the U.S. will encourage the maintenance of adequate production and development of additional reserves of petroleum; (43–45)

b. Encouraging the Venezuelan Government to grant new oil concessions necessary for the development of additional reserves required for the increase or at least maintenance of existing levels of production; (44, 48)

c. Furthering the concept of cooperation between the American oil and iron mining companies on the one hand and the Venezuelan Government on the other, and by taking what measures we can to overcome the natural prejudice of the Venezuelan masses against foreign big business; (27, 28, 46–48, 52)

d. Emphasizing the benefits which the Venezuelan people obtain from investment of private U.S. capital in their country; and supplementing and stimulating the efforts of the large U.S. companies operating these to improve their own labor and public relations programs; (27, 28, 46–48, 52)

e. Continuing to show in public statements by U.S. officials, and by specific measures of cooperation and assistance, our approval of the Venezuelan attitude toward foreign investments; (6, 42) *f*. Encouraging private investment and extending Export Import Bank loans where these may be necessary to aid in the sound economic development of the country; (54)

g. Discouraging the development of uneconomic tariff barriers which will limit our export market and decrease trade; (7, 31, 43)

h. Extending upon request technical aid in those projects which will raise the standard of living for the Venezuelan masses, and will serve as an indication of the good will of the U.S. toward the Venezuelan people. (55, 56)

Information and Related Activities

13. The U.S. information and cultural programs in Venezuela should be directed toward gaining the understanding and friendship of the Venezuelan masses by:

a. Presenting the U.S. as a nation without imperialistic intentions which is interested in the increased welfare of those masses and the economic development of the country; (57)

b. Emphasizing the economic and political community of interest existing between the two countries; (59)

c. Using all available resources to convince the people of Venezuela that the best interests of Venezuela and its people will be furthered by economic cooperation and by continuing to attract private foreign capital; that wise nationalism is by no means to be equated with nationalization; and that aggressive demands for nationalization and extreme nationalism are in fact contrary to the best interests of Venezuela; (27, 28, 39, 42, 46–52, 54, 57)

d. Endeavoring to convince Venezuelans that their national safety depends upon hemisphere solidarity and makes it imperative for them to keep their strategic materials available to the free world; (8, 9, 30, 32, 40, 44, 52, 59)

e. Making increased efforts to reach the laboring masses with our information and other programs, bearing in mind their distrust of the U.S. and the appeal of Communist propaganda to this group; (57–59)

f. Furthering the interchange of journalists, teachers, and students as groups particularly susceptible to Communist ideology, but also susceptible to exposure to U.S. democracy; (59)

g. Continuing the work of the binational center and other projects for increased cultural interchange, and the exchange of leaders and trainees in important areas of Venezuelan life. (57)

Military

14. The U.S. should promote cooperative planning for the protection by both countries of Venezuela's strategic resources, territory, and sea and air lanes against external aggression by:

a. Obtaining acceptance by the Venezuelan Government of the specific role which Venezuela should play in defense of the hemisphere in accordance with the Western Hemisphere Defense Scheme.[3]

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[3] Apparent reference to the Common Defense Scheme for the Defense of the American Continent, approved by the Inter-American Defense Board, Oct. 27, 1950, and by the Department of State, Jan. 15, 1951; for pertinent information, see Secretary of Defense Marshall's letter to Secretary Acheson, Dec. 16, 1950, *Foreign Relations*, 1950, vol. I, p. 679.

This can best be achieved by trying to reach agreement with Venezuelan authorities on a program of equipment acquisition which will actually develop Venezuela's ability to participate in such protection, with the understanding that the U.S. will fill equipment requests based on this program on a high priority basis; (32–37)

b. . . .

c. Exercising great care at all times to avoid any encouragement of the purchase of arms in excess of those required for Venezuela's actual hemispheric defense responsibilities, to avoid the development in Venezuelan minds of implied U.S. commitments to supply such arms, and to guide the thinking of Venezuelan military officers so that their requests will conform to those needs. (61, 62)

831.2553/6–2553

The Acting Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Nash) [1]

TOP SECRET WASHINGTON, October 29, 1953.

DEAR MR. NASH: I refer to the letter of June 25, 1953 [2] from the Deputy Assistant Secretary of Defense [3] to the Secretary of State requesting that arrangements be made through diplomatic channels for the resumption of the military staff conversations of March 1951 between United States and Venezuelan military representatives, which were terminated on the initiative of Venezuelan military authorities primarily because of Venezuelan dissatisfaction at not being able to purchase United States military equipment on satisfactory payment and delivery terms under the Mutual Defense Assistance Act of 1949,[4] as amended.

After the receipt of the letter of June 2 [25], 1953, representatives of the Department of State discussed the subject of staff conversations with representatives of the Department of Defense, who agreed that the success of further military conversations would depend in very large part on the ability of the United States to assist Venezuela in the procurement of United States military equipment. Accordingly, it was decided that United States military representatives participating in the conversations should be prepared to discuss the procurement of equipment in very specific terms, and that the Department of Defense should therefore prepare, prior to the resumption of conversations: (*a*) price and availability estimates on military equipment reported by the United States Embassy, at Caracas, to be desired by Venezuela, (*b*) an analytical report showing how much of the equipment set forth in the list appended to the Agreement Document of 1951, and how much additional equipment, Venezuela has sought to purchase from the United

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[1] Drafted by George O. Spencer of the Office of Regional American Affairs.

[2] Not printed (831.2553/6–2553).

[3] N. E. Halaby.

[4] Public Law 329, approved Oct. 6, 1949; for text, see 63 Stat. 715.

States since 1951, including amounts actually purchased and delivered. This understanding between Department of State and Department of Defense representatives was transmitted to the United States Embassy, at Caracas, in airgram No. A–9 of June 16, 1953,[5] approved by the Department of Defense, with the request that the Embassy ascertain current Venezuelan requirements necessary for the development of the price and availability estimates referred to in (*a*) above. The Embassy has set forth current Venezuelan requirements for equipment in despatch No. 562 of October 7, 1953,[6] which requests that the agreed price and availability estimates be prepared and the Embassy authorized to make a formal request to Venezuela for a resumption of staff conversations at a date early enough to avoid conflict with preparations for the Tenth Inter-American Conference planned to convene about March 1, 1954.[7] A copy of the Embassy's despatch is enclosed.

The Department of State would appreciate being informed of the approximate date on which United States military representatives would be prepared to resume conversations with Venezuelan military representatives, taking into account the time required for the preparation of the analytical report and the price and availability estimates which Department of Defense representatives have agreed should be completed before the resumption of conversations. In addition, it is suggested that the Department of Defense indicate whether it would be preferable for the conversations to be held in Caracas, as originally planned, or in the Canal Zone. When this information has been provided, the Department of State will authorize the Embassy to make a formal approach to the Venezuelan Government for the resumption of conversations.

The Department of State is of the opinion that Venezuela will continue to consider the procurement of equipment and the negotiation of defense arrangements to be matters of considerable political importance. In fact, it is conceivable that Venezuelan military representatives participating in the conversations may consider that one or more of the subjects under discussion should be referred to the Venezuelan Foreign Office or the Venezuelan President for discussion with the United States Government at the diplomatic level. In order to be fully prepared to meet such a contingency, it is important that the Department of State be fully advised regarding the subjects to be discussed during the conversations and provided with copies of any arrangements or agreements to be proposed to Venezuelan military representatives, together with copies of the estimates and studies referred to in (*a*) and

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[5] Not printed (731.5 MSP/7–1653).

[6] Not printed (731.5 MSP/10–753).

[7] For documentation concerning the conference, see pp. 264 ff.

(*b*) above. It is also suggested that the Department of Defense approve the assignment of a political officer from the United States Embassy at Caracas to attend the meetings as a political advisor to United States military representatives.

The Department of State notes that the letter of June 2 [*25*], 1953 from the Department of Defense has been classified, Confidential–Security Information. Provided that the Department of Defense concurs, the Department of State will apply this classification to all existing papers and correspondence on the subject of military staff conversations with Venezuela.

Sincerely yours, ROBERT MURPHY

731.5 MSP/1–1354

Memorandum by the Assistant Secretary of Defense for International Security Affairs (Nash) to the Acting Special Assistant to the Secretary for Mutual Security Affairs (Nolting)

SECRET WASHINGTON, January 13, 1954.

Subject: Concurrence in Recommendation that Venezuela be Accorded Privilege of Purchasing Military Equipment under Sixty Day Payment Plan

1. Reference is made to your letter, 25 November 1953,[1] on the above subject. This letter requested information as to whether the Department of Defense would concur in a recommendation to the Director of the Foreign Operations Administration that Venezuela be permitted subject terms of payment.

2. The Department of Defense concurs from a military viewpoint in recommending to the Director of the Foreign Operations Administration that a determination be made that it is in the interest of the United States that Venezuela be permitted to purchase military equipment available from stock and pay for such equipment *within* sixty days after delivery. This is in accordance with H.R. 7005, which became the Mutual Security Act of 1952, (PL 400, 82nd Congress, 2nd Session, approved 20 June 1952).[2]

3. In connection with the aforementioned recommendation, the following points should be noted:

a. Sale of matériel for payment within sixty days is confined to those items from the stocks of the military departments. The term "stocks" includes those stocks on hand and available for prompt delivery or those on order and available for delivery within thirty days from the date of the order. Any orders received from the eligible foreign government which cannot be filled in this manner will fall within the provisions of Section 408(*e*) of the Mutual Defense Assistance Act, as amended, relating to dependable undertakings, or arrangements must be made with the country concerned for deposit of cash in advance.

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[1] Not printed (731.5 MSP/11–2353).

[2] For text of the act, see 66 Stat. 141.

b. If requests, particularly for spare parts and secondary items, were to become numerous, some system involving a blanket dependable undertaking similar to that in effect for Canada would probably be required in order to finance these small scale transactions without the necessity of informing the Government concerned in each and every case that an advance of funds was required.

4. The Department of Defense concurs with the Department of State in the belief that to permit Venezuela to buy military equipment on sixty day payment terms will go a long way in solving a problem in United States-Venezuelan relations.

For the Assistant Secretary of Defense (ISA):
A. C. DAVIS
Vice Admiral, USN
Director, Office of
Foreign Military Affairs

735.5 MSP/1-1354

The Acting Special Assistant to the Secretary for Mutual Security Affairs (Nolting) to the Director of the Foreign Operations Administration (Stassen)[1]

SECRET WASHINGTON, January 15, 1954.

DEAR MR. STASSEN: I refer to Section 408(*e*) of the Mutual Defense Assistance Act of 1949, as amended, which permits a foreign government, if it is determined to be in the best interests of the United States, to pay for military equipment available from stock sixty days after it takes delivery from the Department of Defense.

I believe that it would be in the best interest of the United States to permit the Government of Venezuela to purchase military equipment from the Department of Defense under this provision of law. There are a number of strategic installations in Venezuela, particularly those connected with the petroleum industry, the defense of which is a matter of serious concern to the Department of Defense. The Department of Defense is desirous of resuming military staff conversations with Venezuela in order to consider with Venezuelan military officials the best means of protecting these installations. Venezuela has not been willing to accept any grant military assistance from the United States which could be used in the defense of these and other installations of strategic importance, preferring instead to pay for the military equipment it receives. This attitude is very commendable and I consider it very important therefore that we do everything that reasonably can be done to assist Venezuela in procuring the required military equipment from the Department of Defense. Permitting Venezuela to pay for military equipment sixty days after delivery would help considerably in this respect.

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[1] Drafted by Robert M. Sayre of the Office of Regional American Affairs.

Venezuela has for some time been dissatisfied with availability of military equipment from the United States Government and the requirement that the equipment be paid for at the time a firm order is placed for the equipment. This dissatisfaction caused Venezuela to break off military staff talks in 1951. The subject has repeatedly been discussed with United States officials by the Venezuelan Government and it has continued to have an adverse effect on our relations with Venezuela. It has also resulted in purchase of military equipment from non-United States sources with consequent adverse effect on our efforts to standardize military equipment in Latin America. In view of the world situation, it has not during the last several years been possible to make available for early delivery all the equipment Venezuela has desired to purchase. This makes it all the more important when we are able to make equipment available that it be made available on the most liberal payment terms possible under the law.

An economic study of Venezuela, a copy of which is attached,[2] shows that at the present time Venezuela has an excellent credit standing and could, without difficulty, make payments on contracts for as much as $50 millions worth of military equipment in any single year. Considering the fact that Venezuela would probably not purchase more than $10 million to $15 million worth of equipment in any year, we could expect prompt payment by Venezuela for any military equipment purchased under Section 408(*e*).

I therefore strongly recommend that you determine that it is in the best interests of the United States that Venezuela be permitted to purchase from the Department of Defense military equipment available from stock and pay for such equipment sixty days after delivery. I am authorized to state that the Department of Defense concurs in this recommendation.[3]

Sincerely yours,

FREDERICK E. NOLTING, JR.

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[2] Not printed.

[3] In letters to Secretary of Defense Wilson and Secretary Dulles, dated Jan. 27, 1954, Director of the Foreign Operations Administration Stassen made the necessary determination authorizing that Venezuela be permitted to pay for military equipment purchased under Section 408 (*e*) of the Mutual Defense Assistance Act of 1949 within 60 days after delivery (731.5 MSP/2–1654).

831.2553/2–854

The Assistant Secretary of Defense for International Security Affairs (Nash) to the Secretary of State

SECRET WASHINGTON, February 8, 1954.

DEAR MR. SECRETARY: Reference is made to Department of State letter dated October 29, 1953,[1] concerning the resumption of the military staff conversations of March 1951 between the United States and Venezuelan military representatives.

The United States military representatives will be prepared to resume conversations with the Venezuelan military representatives on 1 April 1954. This date has been selected to avoid conflict with the Department of Air Force sponsored good will tour of Latin America which ends in February, the contemplated visit by the Chief of Staff of the Armed Forces of Venezuela to the United States, and the Tenth Inter-American Conference planned to convene in Caracas about 1 March 1954.

The previous terms of reference provided for these conversations have been re-examined by the Department of Defense and it is considered that no changes should be made at this time.

The Department of Defense has no objection to the attendance at these meetings of a political officer from the United States Embassy at Caracas provided that he acts in an advisory capacity only. Holding the conversations in the Panama Canal Zone has minor advantages for the United States representatives if only the military aspects are considered. However, considering the diplomatic as well as the military aspects, it appears desirable to hold these talks in Caracas as originally planned.

Inclosed are pricing and availability estimates[2] on the list of military equipment reported by the United States Embassy at Caracas to be desired by Venezuela, analytical summaries indicating status of requests for purchases received from the Venezuelan Government and other pertinent comments relative to the furnishing of this equipment. This information should be utilized only for planning purposes.

It should be noted that the estimates on pricing and availability do not constitute a formal commitment on the part of the United States Government. Lead time is computed on the basis of the time required after receipt of a firm order and completion of financing arrangements.

In the last paragraph of reference letter, it is proposed that all existing papers and correspondence on the subject of military staff conversations with Venezuela be downgraded to Confidential. In accordance with security regulations, each document must be classified in accordance with its content. Accordingly, the Department of Defense is unable to concur in this proposal.

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[1] *Ante*, p. 1659.

[2] None printed.

Sincerely yours, For the Assistant Secretary of Defense (ISA)

A. C. DAVIS
Vice Admiral, USN
Director, Office of
Foreign Military Affairs

731.58/2-1854: Telegram

The Ambassador in Venezuela (Warren) to the Department of State

CONFIDENTIAL CARACAS, February 18, 1954—6 p.m.

181. I saw President today on courtesy call after receiving disquieting reports French tanks already purchased in reaction alleged grievances mission operations, unsatisfactory procurement procedures and receipt inferior United States material. He confirmed purchase French tanks and unhappiness over some aspects mission operations which he implied will be discussed with us by Chief of Staff. Also stated planning purchase squadron US fighter jets. President seemed embarrassed over his weak explanation that French tank purchase due delay in US decision 60-day credit terms and to general unhappiness over cumbersome US procurement procedures. Mentioned slow deliveries recently purchased 105mm. artillery for which cash already paid as case in point. He stated Venezuela desirous purchasing fighter jets and other equipment in United States but would turn to other sources if not satisfied with procurement facilities and prices.

I made it clear that my efforts to date based on desire assist rather than desire sell equipment. I pointed out that previous procurement difficulties took place during war being waged by the United States on behalf Venezuela and other Latin-American countries as well as US, and that US sales to Venezuela then represented true sharing with a friend scarce equipment needed for the prosecution of the war. I stated would continue to help but wondered how effective I could be on jets after fruitlessness action here and in Washington to expedite M-41 tanks.

Comment: I believe air was cleared by talk and am working clarify various outstanding problems regarding missions, equipment and school spaces. Feel purchase French tanks due as much to graft as peevishness.

WARREN

731.00/5-3154: Telegram

The Chargé in Venezuela (Bernbaum) to the Department of State

TOP SECRET PRIORITY CARACAS, May 31, 1954—1 a.m.

311. Department 306[1] discussed separately with Foreign Minister and chief Securidad Nacional without revealing our awareness Venezuelan participation in revolutionary plot.[2]

Both Otanez and Estrada skeptical possibilities effective action through conference. Otanez pointed out that readiness some countries support convocation conference might reflect reluctance appear obstructionist rather than readiness support effective action. He emphasized danger to United States and its prestige and counter productive effect on Communist problem of failure conference to produce more than another resolution. He also expressed belief that many countries would interpret utilization arms issue as unwarranted United States attempt control their arms purchases. While mentioning his satisfaction over presumed availability evidence which would justify conference and belief its success Otanez made no attempt conceal his skepticism. Estrada made no bones of his lack of confidence in conference procedure and preference for direct action. He also emphasized that Venezuela, Panama, Nicaragua, Dominican Republic and Peru were just as worried over Figueres as they were over Guatemala and would insist upon action against him as well. Estrada argued that a satisfactory solution to the Guatemalan case would not solve the Figueres problem which he felt required direct action. He feared the possible success of the recent Costa Rican declaration which he interpreted as a diversionary maneuver to buy immunity.

Estrada then confidentially stated that Venezuela had already been approached by Guatemalan and Costa Rican exiles for funds to finance revolutions in both countries. He inquired why the United Fruit Company could not bear its share and urged United States support or acquiescence in such a move as being much more realistic and certain of success than conference action. He admitted that coups had not already taken place only because of the inability of the interested countries to agree.

I answered that the United States was naturally aware of revolutionary ferment in Central America and was convinced that the problem could best be solved at a conference aimed at concrete measures and not just words. I indicated our belief in the feasibility of such action. Estrada did not argue the point but stated somewhat heatedly that Venezuela would send its Canberras and more over Costa Rica upon the first sign of aggression activities from that country against Venezuela. He was rather vague about the type of aggression which might be anticipated.

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[1] The referenced telegram, dated May 28, 1954, is not printed (731.00/5–2654.)

[2] Against the Guatemalan Government.

Estrada confirmed that he was to depart June 2 on a trip to exchange views with the heads of Panama, Nicaragua and Cuba. He will not visit Ciudad Trujillo because of General Trujillo absence in Europe. He expects to spend about four days in the United States. He stated that he would discuss the trip with the Embassy upon returning. It was also stated that our conversation would be reported immediately to the President whose views he reflected.

BERNBAUM

Mann-Woodward files, lot 57 D 598, "Venezuela"

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward) to the Ambassador in Venezuela, Temporarily in Washington (Warren)[1]

SECRET [WASHINGTON,] June 21, 1954.

I understand that we have not yet answered the Venezuelan queries as to (*a*) what would we do if the vessel we planned to stop[2] had a naval escort of its flag country, and (*b*) would the area of search be as large as the Rio Treaty area.

With respect to the answer to (*a*), we must assume—and I believe that we may do so securely—that this situation will not arise in the case of any vessel other than, possibly, a vessel of a Communist country. If the vessel of a non-Communist country were accompanied by a naval escort, we must expect that the non-Communist government is so fully aware of the activities of the vessel concerned and that it is not engaged in clandestine trade or in other activities that would be contrary to the interests of the free world. To substantiate this point of view, we have indications from the European maritime nations that the United States Government has approached on this problem that they are prepared to give full cooperation in preventing the shipment of arms to Guatemala.[3]

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[1] Drafted by Deputy Assistant Secretary of State for Inter-American Affairs Woodward; redrafted by Assistant Legal Adviser for Inter-American Affairs Marjorie M. Whiteman.

[2] En route to Guatemala, and suspected of carrying military supplies.

[3] For documentation on this subject, see pp. 1111 ff.

With respect to the possibility that a vessel of a Communist country might be accompanied by a naval escort, this would be such a patent indication of direct military collaboration between the Communist bloc and Guatemala that it could be construed as an open defiance of inter-American defense measures. If this highly hypothetical situation were to arise, it would seem reasonable to assert, equally hypothetically, that this display of force would need to be met with force. It would be reasonable to interpret the presence of a naval escort as a specific indication that a substantial shipment of arms was being carried by the vessel escorted.

With respect to (*b*) while the area of search constitutes a matter to be worked out among the American Republics, I would assume that it would not be larger than the Rio Treaty area and might be entirely in the Caribbean area and off the Pacific coast of Guatemala. (We have made this same observation in response to a query from the Chilean Government.)

I believe you received these queries from the Venezuelans in oral discussion with them. Therefore, you may wish to determine what method should be used for transmitting the reply.

731.00/7–2154

The Secretary of State to the Attorney General (Brownell)[1]

SECRET [WASHINGTON,] July 21, 1954.

MY DEAR MR. ATTORNEY GENERAL: The Department has information that Rómulo Betancourt, who was born at Cuatire, Venezuela, in 1908, is desirous of visiting the United States in order to see his daughter who is studying in San Juan, Puerto Rico, and possibly to visit friends in continental United States.

Mr. Betancourt was President of the Junta which governed Venezuela from 1945 to 1948, and before and since that date he has been Secretary General of the political party Acción Democrática (Democratic Action). Following the overthrow of the Acción Democrática government by a military coup in November 1948, Mr. Betancourt was exiled and his party was outlawed. Since 1952 he has been living in San José, Costa Rica, where he has recently applied for a visa to enter the United States. Allegations have repeatedly been made by certain persons, particularly members of the present Venezuelan regime which overthrew Acción Democrática, that Mr. Betancourt is a communist or communist sympathiser. However, as a result of observation of Mr. Betancourt, both while in office and subsequently, and careful appraisal of available information, the Department is of the opinion that Mr. Betancourt's political orientation may best be described as nationalistic, leftist, non-communist, and frequently outspokenly anti-communist. When in power he co-operated with the United States and since that time, while he has occasionally spoken critically of certain policies, it is believed that he is basically friendly toward this country.

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[1] Drafted by Mr. Davis.

Mr. Betancourt has admitted that during the early 1930's he belonged to the Communist Party of Costa Rica. He has, therefore, been found to be inadmissible under the provisions of Section 212(*a*)(28) of the Immigration and Nationality Act.[2] He withdrew from membership in the party during the late 1930's.

. . . .

Mr. Betancourt's presence in Costa Rica and his friendship with the President of that country have recently constituted a source of increased friction between Venezuela and Costa Rica, which if it continues may lead to the outbreak of hostilities in this hemisphere and serious injury to the inter-American system. Such a development would be contrary to the national interests of the United States and would weaken vital support for this country. Mr. Betancourt has of his own free will offered to leave Costa Rica, accompanied by his wife, and following a visit to his daughter and to friends in the United States, he intends to take up residence in a South American country. This proposed move is considered to be very much in the interest of improved inter-American relations and, therefore, in the public interest of the United States. Our failure to permit his entry into this country at this time would interfere with the achievement of this result. It is, therefore, considered urgent and important that Mr. Betancourt be permitted to come to the United States, notwithstanding the uncompleted investigation cited in the preceding paragraph.

It is requested, therefore, that you exercise your discretionary authority for the temporary admission of Mr. Betancourt under Section 212 (*d*)(3)(A) of the Immigration and Nationality Act.

Inasmuch as the Department has been informed that Mr. Betancourt desires to arrive in the United States on July 22 or at the very earliest moment thereafter, your urgent attention in the matter would be appreciated.[3]

Sincerely yours,

For the Secretary of State:
Henry F. Holland
Assistant Secretary

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[2] Public Law 414, approved June 27, 1952; for text, see 66 Stat. 163.

[3] Attorney General Brownell granted the required waiver for a period of 90 days, and Señor Betancourt entered the United States at Miami on July 26, 1954.

611.31/8–1754

Memorandum of Conversation, by the Assistant Secretary of State for Inter-American Affairs (Holland)

SECRET [WASHINGTON,] August 17, 1954.

Subject: Venezuelan Relations with Costa Rica and the United States
Participants: Dr. César González, Ambassador of Venezuela
Assistant Secretary Henry F. Holland

I had lunch with Ambassador González on Tuesday, August 17. He made the following statements:

President Pérez Jiménez fears that the United States may have decided to adopt an increasingly unfriendly attitude toward Venezuela. He interprets a number of recent events as possibly indicating this:

1. Our recent assistance to Costa Rica in the face of attacks from Nicaragua.
2. The fact that a picture was taken of me at the airport in San Juan, Puerto Rico, in which Gonzalo Facio and Padre Nuñez, both Costa Ricans identified with Figueres, appeared.
3. A newspaper report from Puerto Rico quoting me as having said that the United States would consult Muñoz Marín,[1] widely known as a friend of Figueres, in all of its policies with respect to Latin America, and that wherever Muñoz Marín travels he is to be considered an Ambassador of the United States as well as of Puerto Rico.
4. The fact that Betancourt is reported to be now in Puerto Rico and has announced an intention to come to New York for a month.
5. The fact that Betancourt was in Puerto Rico at about the same time that I was.

I explained the occasion for my trip to Puerto Rico. I explained that Nuñez and Facio were guests of the Puerto Rican Government, and that I had not known they were going to be there when I was. The fact that I appeared in the same picture with them was because Nuñez was leaving on the same plane for New York and Facio had come to the airport to see him off. The quotations attributed to me were inaccurate. A reporter had asked at the airport whether in its inter-American relations the United States would take into consideration the comments of Governor Muñoz Marín. I had replied that, of course, we would. I pointed out that Betancourt had not arrived in Puerto Rico until after my departure; that we had no knowledge of any plan on his part to come to New York, and that he had only a visitor's visa.

I went on to say that there was every reason for the United States to have friendly relations with Venezuela; that it was an outstanding example of private enterprise and respect for private property; that it would be the policy of the United States in this hemisphere to take more and more into consideration its relations with such leading countries as Brazil, Venezuela, Colombia, Peru, and Mexico. I pointed out that, as I had already explained to him, our interest in the Costa Rican problem was in the prevention of any disorder in Central America at this time and in the protection of a constitutionally elected administration.

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[1] Luis Muñoz Marín, Governor of Puerto Rico.

González said that I would have to understand the situation prevailing in Venezuela. The Government is a military dictatorship and the President is always fearful of its stability. Pedro Estrada has the mentality of a policeman and has to preserve an atmosphere of suspicion and vigilance in order to justify his own position in the Government. The President's naturally suspicious nature makes him accept Estrada's interpretations of events.

González hopes that eventually Venezuela will outgrow its military dictatorship, but feels that, for the present, the Government is doing much for the country and that Pérez Jiménez himself is better equipped to govern than anyone else currently in the picture.

González urges that if the United States will confer a decoration on Pérez Jiménez all of his current resentments and suspicions will disappear. He urges that we consider doing so, and that, if we decide that we can decorate him, we send a General to Caracas to do it. He also says that he would like to bring Pérez Jiménez to the United States on a visit.

I agreed to find out the whereabouts of Betancourt, and to look into the problem of the decoration.

I took up with González a statement made to me earlier in the day by Ambassador Facio of Costa Rica that his Government would like to make its relations with Venezuela more friendly. He said that if the suggestion came from the United States it would be interpreted in Caracas as further evidence of a desire on our part to favor Costa Rica. On the other hand, he said that if Ambassador Facio would take the matter up with him direct, he could and would collaborate fully.

831.2553/2–854

The Acting Assistant Secretary of State for Inter-American Affairs (Woodward) to the Director of the Office of Foreign Military Affairs, Department of Defense (Davis)[1]

SECRET [WASHINGTON,] September 29, 1954.

DEAR ADMIRAL DAVIS: I refer to your letter of February 8, 1954,[2] concerning resumption of military staff conversations with Venezuela at Caracas.

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[1] Drafted by Mr. Sayre.

[2] *Ante*, p. 1664.

Arrangements for the initiation of military staff conversations were not made after the receipt of your letter in view of several problems which arose in our military and other relations with Venezuela, that are already known to members of your staff. It was also considered advisable to delay the initiation of such conversations until after the chiefs of the three military services in Venezuela had visited the United States.

The Commandant of the Venezuelan Navy visited the United States in June as the guest of the Department of the Navy and the Chief of the Venezuelan Air Force is to visit the United States this month as the guest of the Air Force. The chief of the Venezuelan Army is unable to accept a similar invitation.

Our Embassy at Caracas reports that as a result of recent conversations between the Assistant Secretary of State for Inter-American Affairs and the President of Venezuela there has been a marked improvement in the relations between the United States and Venezuela.

In view of the above, this Department considers that it would now be desirable to initiate military staff conversations and I would appreciate being informed of the earliest practicable date that the Department of Defense would be prepared for such conversations so that the matter may be taken up with the Venezuelan Government.[3]

Sincerely yours, ROBERT F. WOODWARD

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[3] In a memorandum to Special Assistant to the Secretary for Mutual Security Affairs Nolting, dated Dec. 3, 1954, the Acting Director of the Office of Military Assistance, Department of Defense, Col. J. K. Wilson, Jr., stated that U.S. military representatives would "be prepared to resume conversations with Venezuelan military representatives thirty (30) days after notification is received that Venezuela agrees to resume the talks." (831.2553/12–354)

731.00/10–2854

Memorandum by Bainbridge C. Davis of the Office of South American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Woodward)

CONFIDENTIAL [WASHINGTON,] October 28, 1954.

Subject: Action on Betancourt Case.

The attached summary[1] of Betancourt's visa status explains the background for the unpleasant alternatives with which we are confronted. Betancourt's time for remaining in the U.S. expired on October 24. He apparently believed that we were willing, without further action on his part, to extend his permission to stay until we had acted on his communist defector application.[2] The facts are, however, that he could have remained only if Immigration Service had extended his stay, upon his application prior to October 24 and with State Department approval; and that he cannot obtain the defector status which he has applied for without making a further trip to a U.S. Consulate.

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[1] Not printed.

[2] Señor Betancourt had applied for a visa as a Communist defector in July 1954.

Since Mr. Holland decided that Betancourt's stay in the U.S. should not be extended and that a communist defector visa should not be granted him as this time, we have the following alternatives:

(*a*) Take no action, and unless Betancourt leaves voluntarily, Immigration Service will institute deportation proceedings. This will undoubtedly arouse strong resentment in view of his understanding of our position and he will appeal to the State Department.

(*b*) Inform Betancourt (through Governor Muñoz, Mr. Mann, Mr. Stewart, or by direct communication) that he misunderstood our procedures; that his legal stay has expired; that we are not now able to extend it and are not prepared to permit his reentry at this time; and that he should depart promptly in order to avoid deportation. If presented orally in a tactful and friendly manner, this should not create as lasting a spirit of resentment and hostility on his part or on that of various liberal elements in this country and abroad.

731.00/11-1654

Memorandum of Telephone Conversation, by the Director of the Office of South American Affairs (Atwood)

CONFIDENTIAL [WASHINGTON,] November 16, 1954.

Subject: Rómulo Betancourt

Participants: Arturo Morales Carrion, Under Secretary of State of Puerto Rico
OSA—Rollin S. Atwood

Mr. Morales Carrion had telephoned Mr. Jamison of AR on Friday, November 12, to state that Rómulo Betancourt had consulted with him about his not having received an extension of his visa which technically expired on October 24 and which he thought was being granted. Morales Carrion indicated that Betancourt desires to complete the book he is writing and to attend the wedding of his daughter. Mr. Morales asked if he should approach the Immigration Service in Puerto Rico or whether the State Department wished to take some action on the case. Mr. Morales said that Mr. Holland had recently talked to him in Miami about the case and he believed that Mr. Holland was agreeable to Mr. Betancourt's staying a little longer.

Mr. Atwood informed Mr. Morales that the period of Betancourt's Attorney General waiver had expired on October 24 without his having applied for an extension and it was, therefore, impossible at this time for him to receive such an extension. He also explained that no action could be taken on the communist defector application for a visa while Betancourt remains in the U.S. but that it will be necessary for him to apply outside the U.S. for such a visa. Mr. Atwood stated that Mr. Betancourt appeared to have misunderstood the process for obtaining an extension of stay. However, if Betancourt were to remain for the wedding of his daughter in December and would leave promptly after that event, he did not believe that there would be any difficulty. (The Visa Office had already obtained informal assurance from the Immigration Service that in view of the delicate political character of this case, no action would be taken toward deportation of Betancourt prior to the end of December. Mr. Atwood passed on this information to Mr. Morales.)

Mr. Morales asked whether it would be convenient if he encouraged Betancourt to leave the U.S. "for the south" as promptly as possible after the wedding of his daughter in December and Mr. Atwood told him that this was entirely correct.

731.00/12–2054

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

SECRET [WASHINGTON,] December 20, 1954.

I am attaching a few extracts from a letter dated December 8, 1954[2] from Ambassador Warren in Caracas, Venezuela, to Mr. Atwood, Director of South American Affairs (Tab A). They have to do with:

1) The apparent results of our having decorated President Pérez Jiménez.

2) Comments on the Rio Conference.[3]

3) Increased popular support for President Pérez Jiménez.

4) Administrative problems directly linked to a unified Foreign Service.

[Attachment]

EXTRACTS[4] FROM SECRET LETTER, DATED DECEMBER 8, 1954, FROM AMBASSADOR FLETCHER WARREN, CARACAS, VENEZUELA, TO ROLLIN S. ATWOOD, DIRECTOR, OFFICE OF SOUTH AMERICAN AFFAIRS

1. *Decoration of President Pérez Jiménez*

"It has been brought home to us from all quarters that the decoration of the President[5] has proven to be the most popular event in

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[1] Drafted by Mr. Atwood. Addressed also to the Under Secretary.

[2] No complete copy of the referenced letter was found in Department of State files.

[3] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly referred to as the Rio Economic Conference), held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation on the meeting, see pp. 313 ff.

[4] The source text contains no ellipses.

[5] President Pérez Jiménez was informed on Oct. 22, 1954, that he would be decorated with the Legion of Merit Award (Despatch 436, from Caracas, dated Oct. 28, 1954, 731.11/10–2854).

Venezuelan-American relations in many, many years. We hear the same story of its good effects from Americans of all classes and businesses, from Venezuelans and from other foreigners (with the exception of our British friends). The other day President Pérez Jimenez expressed his appreciation of the decoration to Secretary Humphrey, requested the Secretary to convey to President Eisenhower Pérez Jiménez' grateful and respectful thanks, and added that although he (Pérez Jiménez) appreciated receiving the decoration because it came to him as an individual, it was really important because every Venezuelan felt that he had been decorated when his President received the award. I'm surprised at how near to the truth I think the President came. We thought the decoration was in the best interest of Uncle Sam, as we told you and Henry Holland. The results were much better than even we expected."

2. *Rio Conference*

The Ambassador and his deputy, in working on the Rio Conference, found: "that the Venezuelans were against the Chilean plan for an International Bank, that to their surprise they are finding themselves, by force of favorable circumstances, closer and closer to our views on many things, particularly in the field of finance and banking. Dr. Silvio Gutierrez[6] returned from Rio with the highest praise for Henry Holland and the other members of the American Delegation, saying they could not have been more helpful and cooperative with the Venezuelans, and that he was going to tell President Pérez Jiménez that the relations between the United States and Venezuela had never been better than they are today."

3. *Popular Support for President Pérez Jiménez*

"As an American schooled in Texan politics, my guess would be that if an honest election were held today, he would be re-elected. However, if he continues the drive, the intelligent expenditure of money, and the concentration on specific goals during the next two years that he has exhibited in the past, he should be overwhelmingly re-elected whenever the time for that election arrives. It looks to us in the Embassy that he is more firmly in the saddle today than he has ever been He is just beginning to savour the sweetness that is a politician's when he first begins to feel the warmth of popular support. The other day when the crowd picked him up and carried him on its shoulders at one of the ceremonies, I am told that the little man remarked, 'I am beginning to believe that the Venezuelans like me because of what I am'."

[Here follows discussion of the efforts of other executive departments to develop or to expand their foreign service operations.]

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[6] Venezuelan Minister for Development.

618.31/12-2354

Memorandum by the Deputy Assistant Secretary of State for Inter-American Affairs (Sparks) to the Under Secretary of State (Hoover)[1]

SECRET [WASHINGTON,] December 23, 1954.

Subject: Effects on U.S.-Venezuelan Relations of a Possible Reduction or Limitation on U.S. Imports of Venezuelan Petroleum

After some rough going consequent to the Guatemalan affair, our relations with Venezuela are in the best shape they have been for many years. This also applies to the relations between U.S. private companies and the Venezuelan Government. Venezuela is one of our staunchest supporters when it comes to trying to reduce Government-control, Government-regulation, and other "socialistic" tendencies in the economic development and trade expansion program in this hemisphere. Her delegation cooperated fully with us at the Rio Conference.

Any United States Government action to red ce or limit Venezuelan exports of petroleum to the United States would not only raise serious questions with regard to our bilateral trade agreements with Venezuela and provisions of GATT,[2] but would adversely affect directly U.S. security, economic and political interests.

1. We are at present awaiting the Venezuelan decision to go forward with extremely important high level military staff talks regarding security of the oil fields and of the Caribbean area in general.
2. Restriction of U.S. imports of Venezuelan oil would seriously jeopardize the U.S. market for over $500 million worth of annual U.S. exports to Venezuela. In addition, Venezuela pays about $350 million annually to the United States for services. It should also be remembered that these goods and services are paid for in cash. The current favorable climate for the investment of private capital would also be seriously jeopardized. The value of U.S. private investments in Venezuela total over 2 billion dollars. There is talk of considering increased import duties, quotas and possible nationalization in the light of rumors that the U.S. will restrict Venezuelan petroleum imports.

There would be a distinct worsening of our overall political relations which would be felt not only inside Venezuela. It could well have a far-reaching effect and arouse serious doubts regarding the basic economic policies announced by this administration which were so forcibly and carefully outlined at the recent Rio Conference.

---

[1] Drafted by Mr. Atwood.

[2] Reference is to the General Agreement on Tariffs and Trade (GATT), concluded at Geneva, Oct. 30, 1947, and entered into force for the United States, Jan. 1, 1948; for text, see 61 Stat. (pts. 5 and 6), or TIAS No. 1700.

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